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World Business Newspaper

TUESDAY OCTOBER 24 1995

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World markets fall as political strife hits currencies

Stock markets fell round the world as political concerns in Italy and France caused investors to flock into the D-Mark and Swiss franc, and sent the dollar to its lowest level in nearly three months. The focus of events was in Europe, particularly Italy, where concern that a no-confidence vote could unseat the prime minister, Lamberto Dini, and force early elections, prompted a flight out of the lira. Page 18; Paris judge to rule on renting of Chirac's flat, Page 3; Forex surge masks maturing market, Page 6; Currencies, Page 31; London stocks, Page 36; World stocks, Page 40

GEC Alsthom, the joint venture between the General Electric Company of the UK and Alcatel Alsthom of France, is in talks with Daimler-Benz over buying the electrical power operations of AEG, the loss-making subsidiary of Daimler. Page 19; Alcatel in \$650m radio satellite deal, Page 4

OECD lowers Japan growth forecasts The Organisation for Economic Co-operation and Development lowered its forecast for Japanese growth in 1995 by a full percentage point to 0.3 per cent. Kumiharu Shigehara (left), the OECD's chief economist, had warned of the radical downgrades because of the year's strength, and continued weak consumer demand. Page 18

Glaxo Wellcome shares rose after the world's biggest drugs maker said it had settled a patent dispute over Zantac, the ulcer drug which is the world's biggest-selling medicine. Page 18 and Lex

Spanish budget plans attacked The Spanish government's budget plans for next year were vigorously attacked in a report which raised serious doubts about the country's chances of meeting the conditions for European monetary union. Page 2

Boost for Japanese brokers The gap between Japan's leading securities companies and the rest continues to widen with the big four brokers - Nomura, Nikko, Daiwa and Yamauchi - recording improved profits. Page 19; Lex, Page 18

Britain gives WTO priorities Europe's trade commissioner Sir Leon Brittan called on World Trade Organisation members to make investment rules, competition policy, the environment and labour standards the top priorities for future negotiations. Page 6

Berlin result creates confusion Germany's main political parties have been thrown into confusion over how to respond to the surge of support for the Party of Democratic Socialism, the successor to the former east German communist party. Page 2

Norsk Hydro, Norway's biggest quoted company, announced a doubling of net income to Nkr5.77bn (\$835m) at the nine-month stage, after an unexpectedly strong third quarter when profits jumped from Nkr1.1bn to Nkr1.65bn. Page 20

Former Daiwa man admits cover-ups A former senior Daiwa Bank executive has admitted the bank's management attempted to cover up bond-trading losses accumulated by a dealer in its New York branch. Page 8; Hidden behind a screen of stability, Page 17

S Korean leader orders probe South Korean President Kim Young-sam ordered a "thorough" investigation into allegations that his predecessor, Roh Tae-woo, controls a Won400bn (\$520m) political slush fund. Page 5

Israel raises lending rates Israel's central bank signalled a rise in its key lending rate, reflecting growing concern about the expansion of the money supply, a significant increase in the budget deficit and continued inflationary expectations in the rapidly growing economy. Page 4; State of attraction, Page 16

Aung San Suu Kyi barred Burmese opposition leader Aung San Suu Kyi has been denied permission by the country's military government to resume the leadership of the political party which she helped to found. Page 5

Nippon Credit Bank, labouring under a burden of bad loans, announced plans for a radical retrenchment of its global operations. Page 25

Saddam increases Iraqi rationing President Saddam Hussein, rewarding Iraqis for his overwhelming referendum victory last week, has increased their food rations and promised parliamentary elections early next year.

STOCK MARKET INDICES			
New York 1000	4774.27	(-20.59)	
Dow Jones Ind	4774.27	(-20.59)	
NASDAQ Composite	1,058.46	(-3.07)	
London 100	2,187.42	(-18.59)	
FTSE 100	2,187.42	(-18.59)	
Nikkei	18,158.24	(-1.08)	
US LUNCHTIME RATES			
Federal Funds	5 1/4%		
3-mth Treas Bill	5.427%		
Long Bond	6.57%		
OTHER RATES			
UK 5-yr Interbank	6 1/4%	(80m)	
UK 10 yr Gilt	10 1/2%	(101 1/2)	
Prime 10 yr Gilt	10 1/2%	(101 1/2)	
Germany 10 yr Bond	10 1/2%	(102 1/2)	
Japan 10 yr JGB	112.733	(113.013)	
NORTH SEA OIL (Avg/ton)			
Brut 15-day (Dec)	\$15.57	(15.795)	

Austria	3045	Greece	1400	Malta	1000	Qatar	1000
Bahrain	1000	Hong Kong	1000	Morocco	1000	S. Arabia	1000
Belgium	1000	Hungary	1000	Neth	1000	Singapore	1000
Bulgaria	1000	India	1000	Norway	1000	S. Korea	1000
Cyprus	1000	Italy	1000	Poland	1000	S. Africa	1000
Czech Rep	1000	Japan	1000	Portugal	1000	Spain	1000
Denmark	1000	South Korea	1000	Romania	1000	Sweden	1000
Egypt	1000	Taiwan	1000	Slovakia	1000	Switzerland	1000
Estonia	1000	Thailand	1000	Slovenia	1000	Turkey	1000
Finland	1000	UK	1000	Turkmenistan	1000	UAE	1000
France	1000	USA	1000	Ukraine	1000		
Germany	1000						

UK and France lead demands for UN reform

By Michael Littlejohns and
Quentin Peel in New York

Britain and France led calls yesterday for sweeping reforms of the United Nations to streamline its bureaucracy and eliminate some of its specialised agencies. At the same time, several European leaders sharply criticised the US for failing to pay a \$1.3bn backlog of contributions, even suggesting that Washington should be deprived of its right to vote.

The desperate financial plight of the world body, and the need

European attack on Washington's contributions backlog

to make it more democratic, were dominant themes on the second day of the fiftieth anniversary commemoration in New York, attended by more than 150 world leaders. As US president Bill Clinton and Russian president Boris Yeltsin retreated to upstate New York for a summit, leaders of the world's smaller nations demanded a stronger voice in UN deliberations and a reduction in the veto rights of the five perma-

nent members of the Security Council.

After the summit meeting Mr Clinton said he and Mr Yeltsin had reached agreement on Russian involvement in a Bosnia peace plan.

Moscow has condemned the US for a lack of consultation over military and diplomatic strategy in the region.

Mr Clinton also said the US and Russia had agreed jointly to seek a total ban on nuclear weap-

ons tests next year. He described the agreement as a "major, major step" towards a comprehensive test ban.

The only UN reform on which all members seem to agree is an expanded Security Council, but there are still sharp divisions on the weighting between big powers and small, and over the possible inclusion of Germany and Japan as permanent members.

Mr John Major, the British prime minister, insisted that

some UN bodies should be reviewed and scrapped, and much more drastic reforms implemented to eliminate "waste and duplication".

British officials have made clear that agencies such as Unctad, the UN trade agency, Unicef, the UN children's development organisation, Unesco, the scientific and cultural organisation, as well as the five regional economic commissions, should be part of any review. The

Rome-based Food and Agriculture Organisation and Geneva-based International Labour Organisation should also come under "serious scrutiny", they say.

Mr Major also launched an obvious but oblique attack on the US failure to pay its dues, suggesting that there should be no "representation without taxation" for Washington - clear reference to the demand of the American war of independence for "no taxation without representation".

Editorial Comment, Page 17

Washington blocked Anglo-US air deal

Most large carriers ready to accept Britain's offer

By Michael Shapiro, in
Aerospace Correspondent

Most large US airlines wanted to accept a UK offer of increased access to London's Heathrow airport in last week's failed aviation talks but were overruled by White House officials.

US carriers, including United Airlines, American Airlines, Continental Airlines and Northwest Airlines, wanted to accept the UK offer, although some had hoped for greater concessions.

The UK proposals were opposed, however, by Trans World Airlines and Delta Air Lines.

The talks, aimed at reaching a more liberal aviation agreement, collapsed in Washington on Friday after the US rejected the UK offer as inadequate.

The collapse led to a harsh exchange between the UK and US transport secretaries and is likely to result in a halt to moves to liberalise air traffic between the two countries.

TWA managed to marshal political opposition to acceptance because the offer did not allow it to fly to Heathrow from New York's JFK airport. Mr Richard Gephardt, Democratic party leader in the House of Representatives, is believed to have interceded with the White House on TWA's behalf.

One US airline executive who favoured reaching agreement with the UK said: "It was political influence which brought it down."

Earlier on Friday, both sides had been optimistic a new agreement could be struck, but US negotiators said they needed approval at a level "higher than the Department of Transportation". US airlines said they believed this meant White House endorsement was required.

In a complex series of proposals, the UK had said it was prepared to permit a US airline to make an additional daily return flight to Heathrow for two years.

In 1997, a further daily flight would be allowed for another two years. The UK also offered US airlines the right to begin two new services to London's Gatwick airport.

The proposal could have allowed a third US carrier to use Heathrow, in addition to United and American, which use the airport at present. Conditions laid down by the UK, however, would have excluded TWA from flying to Heathrow.

In return, the UK demanded the right for its carriers to bid freely for contracts to transport

Continued on Page 18
Stuck on the ground, Page 17
Lex, Page 18

Workers may strike over drastic cost-cutting programme



Dasa managing director Manfred Bischoff addresses a news conference at Munich airport yesterday. He said that it was what the company concentrated its efforts on remaining competitive and would strive to keep wage costs down, partly through flexible working hours.

Dasa to shed 8,000 jobs and sell three plants

By Wolfgang Münchau in Munich

Daimler-Benz Aerospace (Dasa) is to shed more than 8,000 jobs and sell at least three production plants in one of the most drastic cost-cutting programmes in Germany's aerospace industry.

Workers' representatives at Dasa yesterday criticised the decision as leading to a loss of technological know-how in a key industry, and did not rule out calling a strike at a meeting scheduled for today.

Most of the job losses - up to 6,000 - will be at Dasa's Airbus subsidiary, the German partner in the European commercial aircraft consortium, which employs about 15,000.

After months of speculation Dasa detailed its plan to counteract the worldwide squeeze on the aerospace industry and the US dollar's fall against the D-Mark.

The loss-making company hopes to improve operating results by DM700m (\$505m) a year and to return to profitability by 1997.

Airlines have been reluctant to order new aircraft in spite of an increase in their profitability. Boeing of the US, the world's largest aircraft manufacturer, said this year it did not expect substantial increases in orders until the next century. Boeing said airlines would use their profits to repair their balance sheets.

Airbus won more orders than Boeing in 1994 but is well behind the US manufacturer this year. The extent of the Dasa job cuts is lower than some forecasts had suggested, with earlier estimates ranging from 10,000 to 15,000.

Mrs Ingrid Lüllmann, head of Dasa's employee representatives, said the decision would result in "massive job destruction and an incredible loss of know-how".

Dasa's problems were worsened by the strength of the D-Mark against the dollar, since it derives its aerospace revenues almost entirely in dollars, while most of the costs are denominated in D-Marks. This year, Dasa is expected to announce a loss of more than DM1.5bn.

With the additional planned reduction of head office staff and other cuts and outsourcing, the company aims to employ more than 8,000 fewer staff at the end of 1998 than at the end of this year. About 3,000 of these job losses were announced under a previous restructuring plan.

The overall figures exclude Fokker, the ailing Dutch aircraft company, which is majority-owned by Dasa. Mr Manfred Bischoff, chief executive of Dasa, said Fokker would announce its own restructuring plan "within days or weeks".

Editorial Comment, Page 17; Lex, Page 18; GEC Alsthom in talks to buy AEG unit, Page 19

EU anger at revelations in Danish commissioner's book

By Caroline Southey in Brussels

EU officials reacted angrily yesterday to attacks on private Commission meetings by Mrs Ritt Bjerregaard, a European commissioner, in a book to be published in Denmark at the weekend.

Leaked extracts from *Commissioners' Diary - The Commissioner's Diary* - were published yesterday in Jyllands-Posten, Denmark's largest daily newspaper. It quotes Mrs Bjerregaard as saying that France's nuclear tests are "pointless" and "a typical example of the need of a new head of state to flex his muscles in order that people become aware how strong a man they have elected. It will be difficult for Mr Chirac to recover from losing face in that affair".

After meeting Mr Helmut Kohl, the German chancellor, at a reception in Berlin, she writes that she "did not get an impression of the man at all, he was not



Ritt Bjerregaard: her book criticises European leaders

paying attention at all. I do not think that he noticed whom he was talking to".

She thought, at a dinner party hosted by the Spanish prime minister in July, that Mr Felipe Gonzalez "still seemed like an

interesting man, but he was without energy, there was no political will. Spain was about to take over the EU presidency, but he did not wish to use it for anything".

Mr Martin Bangemann, commissioner for industrial affairs, was hardly ever present at Commission meetings, she says. "By now, I tend to be surprised when he is actually there."

EU officials accused Mrs Bjerregaard of using her privileged position to write the inside story on weekly Commission meetings - which are considered secret - and its relations with member states. "She is doing untold damage to herself and to the Commission. What is the substance in all this? It is so superficial, so gratuitous," said a senior official. The book is bound to further alienate her from the Brussels establishment with which she has often clashed since her arrival in January. She recently received a

Continued on Page 18

October 1995

This announcement appears on a matter of record only.

Southern Company

through its wholly owned subsidiary,

Southern Electric International, has acquired

South Western Electricity plc

for

£1,066,000,000

SBC Warburg
acted as adviser and broker to
Southern Company
in this transaction

SBC Warburg
A DIVISION OF SWISS BANK CORPORATION

NEWS: EUROPE

Ministers wary of Brussels' jobs goal

By Lionel Barber
in Luxembourg

EU finance ministers yesterday distanced themselves from a European Commission report which suggests that it is possible to cut unemployment in half by the end of the century. At a meeting in Luxembourg, the UK and French ministers warned against over-optimistic growth projections, echoing other ministerial reservations about the chances of creating 11m jobs in the next five years.

The report is part of a Brussels campaign to persuade the European public that the short-term pain of budget deficit reduction required by the Maastricht treaty is worth the long-term goal of monetary union. Ministers welcomed other proposals to stimulate jobs through better training, reduction of employers' non-wage costs and more labour market mobility.

The challenge of reconciling stiff public spending cuts with job protection and creation is being felt in all member states, but no more so than in France which remains committed to a single currency with Germany. Mr Kenneth Clarke, UK chancellor, said there was a "90-90"

chance of Emu going ahead on schedule in 1999, but much turned on France achieving its budget deficit target of 3 per cent of gross domestic product. "The present debate on Emu keeps going back and forth. I think the British position is quite sensible," Mr Clarke said.

"We will wait and see if other member states wish to join Emu... and then Britain will decide," Mr Clarke added. Mr Jean Arthuis, new French finance minister, sought to dispel market doubts about government promises to reduce spending with a vigorous attack on the borrowing habits of Socialist predecessors and their accounting practices which did not give a "faithful" picture.

Mr Arthuis said the government's commitment to reduce spending and public indebtedness enjoyed cross-party backing. This included the strongest supporters of national sovereignty, a veiled reference to Mr Philippe Séguin and his Gaullist followers who are sceptical about Emu.

But Mr Arthuis said he was "impatient" for an interest rate cut. Separately, EU ministers

endorsed the Finnish government's programme for meeting the Maastricht treaty's criteria for Emu by 1996, through spending cuts amounting to 10 per cent of gross domestic product since 1991.

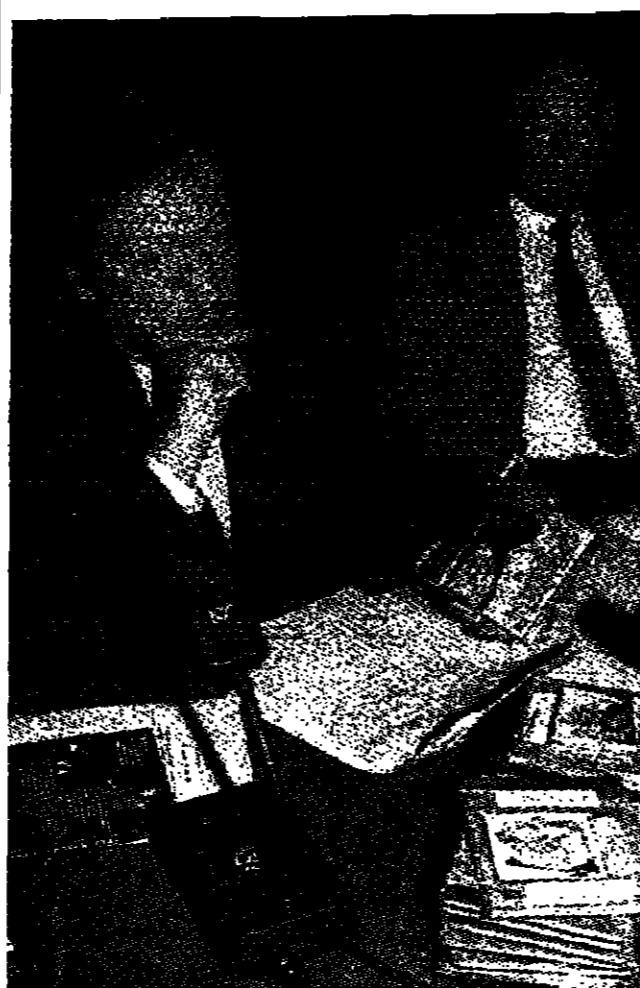
Mr Iiro Viinainen, Finnish finance minister, said it was a "great day for Finland" to receive support for its austerity programme, which aims virtually to eliminate the deficit by next year and move to surplus in 1997.

Ministers noted the Finnish markka had reached a "more appropriate level" following the plunge in the early 1990s when the government was forced to abandon its informal link to the Ecu. But Mr Viinainen ruled out an early move into Europe's exchange rate mechanism.

He also raised concerns about the Swedish krona, saying Finland could not accept Stockholm fixing its currency at "a very low level" if it proceeded with plans to enter the ERM.

Referring to competition in the forest, paper and metal industries from Sweden, Mr Viinainen said: "This would not be fair play, and Sweden understands this very well."

Soviet music archive heads west



Russian-US businessman Tristan Del announcing the deal

By John Lloyd in Moscow and
Alice Rawsthorn in London

Shostakovich playing his own prelude. Sviatoslav Richter playing Bach. Paul Robeson singing in Moscow in 1949.

These are some of the highlights of the music and video archive of the former Soviet state broadcasting network which will go on sale next year.

The archive in Moscow, one of the world's largest collections of recorded music, dates back to 1930 and contains 400,000 hours of music and video footage, featuring work by some of the world's most famous classical pianists, violinists, conductors, orchestras, ballet dancers and singers.

The recordings are to be made commercially available through Phoenix Entertainment, a company founded by Mr Tristan Del, a Russian-American businessman who has struck an international distribution deal with Telstar Records of the UK.

Mr Del has teamed up with Mr James McGraw, a US entrepreneur, and Mr Jack Dorsey, a UK record producer, to form Phoenix and has invested \$5m in the company. He will split the proceeds with the state television and radio company, Telstar, best known in the UK for budget music sold on television, will release some

100 recordings next year, of which the Robeson concert will be the first.

The contents of the Gosteleradio archive will be sold all over the world, except, at least at first, Russia where there are "significant problems of copyright infringement", according to Mr Del. The deal

The deal is controversial. Some factions of the music establishment in Moscow claim that a national treasure is being sold for a song

comes at a time when other eastern European countries are opening up their state music archives.

Eastern Europe has historically been a rich source of classical music and many of the archives contain rare recordings of extremely high quality.

Classical music is a large and highly profitable part of the \$35bn global music market. The "big five" record compa-

nies - Sony, PolyGram, BMG, Warner and EMI - are anxious to secure distribution rights for the eastern European archives.

The Phoenix deal is controversial. Some factions of the Moscow music establishment claim that a national treasure is being sold for a song. Mr Del said he had been "hounded and taunted". He said he was suing Mr Yevgeny Sidorenko, the culture minister, and the pianist, Mr Nikolai Petrov, for \$1.5m for accusing him of sharp practice.

Mr Petrov, interviewed before Mr Del announced the deal yesterday, said he had spent three years fighting him in the courts, and that he had won the rights of possession over the recordings he had made. "You know how much he proposed to pay the performers? Four per cent. Usually it is between 8 and 20 per cent. He sued me because I called him a pirate, and I won the case."

However, Ms Irina Archipova of the International Association of Performers, said discussions were continuing on the percentage to be paid to performers, as their estates. She said she had supported the proposal because it meant performers would receive something for work which, at best, had been miserably paid.

Bulgarian N-plant dispute dominates conference

A pan-European meeting in Sofia of environment ministers, bankers and financiers has sparked heated debates over the fate of Bulgaria's controversial nuclear power plant at Kozloduy.

For months Bulgaria has been under pressure from the Group of Seven leading industrial countries, especially France, not to restart the oldest of its six reactors at Kozloduy on the river Danube.

The 440 megawatt Soviet-made reactor had been closed for upgrading but was restarted earlier this month despite western fears that it could trigger a meltdown disaster of Chernobyl proportions. Today 630

officials attending the conference are due to visit the plant. Some local environmental groups have joined the chorus of western non-governmental organisations (NGOs) which appealed to the west for funds to enable eastern Europe's most dangerous nuclear reactors to be shut down.

Last weekend the NGOs, including Friends of the Earth, Greenpeace, and the World Wildlife Fund staged their own forum in Sofia hoping to influence the ministerial Environment for Europe meeting.

Bulgaria's Socialist government, however, does not seem inclined to bend to international pressure and

Theodore Troev reports from Sofia on the Environment for Europe meeting

shut down reactor number one as this would lead to severe power cuts this winter.

It claims the reactor is already safe after its upgrading through the joint efforts of experts from the International Atomic Energy Agency and the World Association of Nuclear Operators.

Apart from the positive results of recent studies made by Bulgarian scientific institutes and the Russian designer, Gidropress, Sofia yesterday came up with another argument

in defence of Kozloduy. The government revealed that Energo, a local insurance company, has re-insured the nuclear plant with western groups in London, including Lloyd's and the American International Group.

According to Energo officials, experts from the UK's Independent Engineering Services have checked Kozloduy, as required by the foreign insurance companies, and have

judged the plant to be reliable. Bulgarian commentators say that France is putting most pressure on Sofia to divert international attention from this week's debates in the European Commission on the French nuclear tests in Mururoa.

Bulgarian energy sector officials also claim that western economic interests are the main reasons for the anti-Kozloduy campaign.

Disrupting the operation of the plant, which supplies more than 40 per cent of Bulgaria's energy needs, would make the country dependent on energy imports, while Electricité de France is interested in the

planned construction of a second nuclear plant in Bulgaria. Though Kozloduy is overshadowing the Environment for Europe meeting, the conference is meant to focus on western cash for environment projects in eastern Europe as well as nuclear power safety.

Yesterday Bulgaria and Switzerland signed a debt-for-environment swap agreement worth \$17.3m, or 20 per cent of Sofia's official debt to Switzerland.

Mr Georgi Georgiev, Bulgaria's environment minister, suggested similar debt swaps with other creditors would enhance nuclear safety.

EU-wide drugs approval begins

By Daniel Green in London

A new era in health regulation began yesterday with the first pan-European approval of a drug under the 10-month-old framework for Europe-wide medicine regulation.

The drug, a fertility treatment called Gonaf made by Swiss drugs company Ares-Serono, now has a single commercial licence covering all 15 member states. Previously, drug companies had to apply for permits from each member state for every new drug.

As well as eliminating most of the paperwork, the new procedure should make drug approvals much faster. The London-based European Medicines Evaluation Agency, which co-ordinates the new approval scheme, has promised that decisions will be made within 300 days of a drug's submission.

Several EU member states have a reputation for taking several years to consider drug licence applications. Mr Martin Bangemann, industry commissioner, said that the decision showed the EU had taken an important step towards creating a single market. "This new procedure eliminates unnecessary administrative barriers," he said.

But the pharmaceutical sector was still hampered by different national social security systems and price controls, he said. "In the interest of the consumer and the European pharmaceutical producer, the Commission shall continue its efforts to eliminate these barriers," he said.

EU legislation requires all biotechnology medicines to go through the new centralised approval system. After a three-year transition period, the procedure may be extended to cover all drugs.

Mr Bernard Sauer, the agency's executive director, said that the number of drug submissions to the agency had already exceeded expectations. Of the 25 new applications received since May, only nine were biotechnology products. The rest are drugs whose makers had the option of submitting to individual countries.

Unlike the US Food and Drug Administration, the EMEA does not evaluate the drugs directly. It co-ordinates teams of experts from member states who examine a dossier of data gathered from clinical trials submitted by drug manufacturers.

Mr Sauer said that this created competition between agencies, each eager to show that it could meet speed and quality targets set by the EMEA. The agency then submits its recommendations to the European Commission for final approval.

The EMEA was established in London in February 1995 and has already become a factor in pharmaceuticals companies' location decisions. Last week, Mr Svein Asser, the chief executive of Norwegian company, Haskind Nycomed, which has agreed to merge with Ivar of the US, said that the EMEA's presence helped it decide to site the headquarters of the new company in London.

Berlin ex-communists enter the mainstream

By Judy Dempsey in Berlin

Germany's main political parties were yesterday thrown into confusion over how to respond to the surge of support for the Party of Democratic Socialism (PDS), the successors to the former east German communist party.

The PDS, which polled 14.6 per cent of the vote in the Berlin city elections on Sunday, is now the third largest party in the city.

Its 36 per cent support in east Berlin established it as the leftwing party there, with the Social Democrats (SPD) beaten into third place, behind Chancellor Helmut Kohl's Christian Democrats (CDU).

The SPD, whose vote plummeted by more than seven percentage points to 32.5 per cent, will find it difficult to check the rise of the PDS until it

ends the internal bickering at the national level which was blamed for the party's miserable performance.

The CDU and SPD said yesterday they would try to form another grand coalition, dampening speculation that sections of the Berlin SPD might be tempted to form an SPD/Green coalition.

Mr Rudolf Scharping, the SPD leader, opposes any such coalition since it would depend on PDS support.

Like the CDU, the national SPD regards the PDS as a party of die-hard communists, even though the younger generation of the self-employed, intellectuals and managers in east Berlin voted for it as their first choice of a leftwing party. But the strength of the PDS, and the Greens, may be symptomatic of a greater crisis facing the SPD and CDU in Berlin

and nationally.

According to Infas, the opinion poll specialists, voters turned out in Berlin - just over 69 per cent - indicated disillusionment with the established parties and a need for change, sentiments which the Greens and the PDS are tapping and whose electoral success poses a real dilemma for both Mr Scharping and Mr Kohl.

Mr Scharping has to decide whether to shift the party more to the left to win back disaffected SPD voters - more than 35,000 SPD Berliners defected to the Greens and 24,000 to the PDS - or else move to the right.

More than 29,000 SPD voters switched to the CDU, but 26,000 CDU voters switched to the SPD.

This was an indication of the ideological confusion between both parties. More than 90,000



Chancellor Helmut Kohl (right) and Berlin's CDU mayor Eberhard Diepgen discussing the city's election results yesterday

from both the SPD and CDU abstained.

The longer the SPD delays in deciding its future strategy, the more likely it will be for the Greens and the PDS to make even greater inroads in west and east Germany respectively, robbing the SPD of voters.

"The problem of the SPD is that it is stuck in the middle

and is in danger of being ground away - in the west between the CDU and the Greens, and in the east between the CDU and the PDS," said Mr Thomas Krüger, an SPD member of the Berlin parliament.

The Liberal Free Democrats (FDP), Chancellor Helmut Kohl's junior coalition partner, failed to make any impact

in west or east Berlin, where it polled 1.1 per cent. City-wide, it failed to get re-elected to the Berlin parliament and is now represented in only four of the 16 state parliaments.

Even the CDU had little cause for jubilation. It remains the largest party but its support has fallen from 40.4 per cent in 1990 to 37.4 per cent, and it cannot rule alone.

Mr Kohl's Christian Democrats might have to look elsewhere for a junior coalition partner.

They could look towards the Greens. But analysts argue it is too soon, even in Berlin, for such a sea-change. The solution might be another grand coalition and this could only benefit the Greens and the PDS.

Noisy parties woo silent majority

Ian Rodger reports on the electoral gains of the left and the right in Switzerland

Swiss politics will become much noisier following the surprisingly big advances made by the Social Democratic party and the rightwing People's party in Sunday's parliamentary elections.

But the polarisation of voter sentiment that brought about

the result may also lead to a quicker resolution of the two main issues facing the country - European integration and federal budget consolidation - than up to now has seemed likely.

At first glance, the overall changes seem modest. Indeed, the four-party coalition that has ruled the country since 1959 appears to have been strengthened. It won a combined 163 of the 200 lower house seats, compared with 147 seats in 1991, while marginal parties, such as the Greens and the extreme rightwing parties, lost ground.

But the dynamics within the coalition have changed dramatically. Until now, the centrist parties, the Christian Democrats and the Radicals, have led the coalition, with 80 seats between them in the last parliament. They have been able, on most issues, to bring either the rightwing People's party or the Social Democrats along with them. Now the Social Democrats, with 54 seats, 12 more than they had in the last parliament, have displaced the Radicals as the coalition's strongest party. And the People's party raised its seat total from 35 to 30, almost equal to the 34 won by the Christian Democrats.

Observers agree that both the People's party and the

Swiss National Council: state of the parties			
	Seats now	Before election	
Social Democratic party	54	42	
Radical Democratic party (centrist)	45	44	
Christian Democratic party (conservative)	34	36	
Swiss People's party (ultra-conservative)	30	25	
Others	37	53	

Social Democrats increased their support because of the unequivocal positions they have taken on two main issues.

The People's party, inspired by the charismatic industrialist, Mr Christoph Blocher, stood squarely against Switzerland joining the European Union, against liberalised distribution of hard drugs and for substantial spending cuts to balance the federal budget.

The Social Democrats made clear they would fight equally hard for the preservation of social entitlements and for Switzerland participating in European integration.

In the previous parliament, Swiss politicians tried to avoid these issues, particularly the European question, as they could see no way forward after a 1992 referendum in which a narrow majority of voters rejected the government's proposal to join the European Economic Area. In the new parliament, these issues are likely to become dominant, with both the People's party and the

Social Democrats defending their constituencies' interests at every opportunity. In these circumstances, another call for the people to decide the European question could come sooner rather than later.

For all the heat that is likely to be generated in parliament from time to time, the possibility of a break-up of the coalition before the next elections in 1999 seems remote.

Mr Blocher, a protester by nature, might well be tempted at some point to lead his troops out of the coalition, but it is not clear that they would all follow. The traditional, small-town conservative supporters of the People's party find it increasingly difficult to co-exist with Mr Blocher's strident anti-EU, anti-immigration, rural backers from German-speaking central and eastern Switzerland.

Mr Blocher himself seemed quite relaxed about the probable effects of the polarisation. It was a good thing that the opposed views would now con-

front each other directly rather than having the coalition led by parties that did not wish to take a clear stand, he said on Swiss television. "But in the end we will always have to reach compromise."

The longer-term outlook may be less encouraging. As Mr Roger de Weck, editor of Zurich's Tages Anzeiger newspaper, pointed out in an editorial yesterday, Mr Blocher's strident postures and rhetoric have driven French speakers away from the People's party and turned it into a German Swiss nationalist force.

Up to now, part of the strength of Swiss democracy has been the ability of the main national political parties to appeal to all linguistic groups in the country.

This was weakened slightly in recent years in Italian-speaking Ticino, where a nationalist Lega del Ticinese sprung up. But the Lega also lost ground in Sunday's election, apparently because of its unimpressive performance in the last parliament.

Mr Blocher, too, may find the going tougher now that his sources of support have become more clearly identified. The future does not look particularly promising for a movement that so far appeals mainly to disgruntled, ageing farmers and a few maverick intellectuals and businessmen.

Report attacks Spanish budget

By David White in Madrid

The Spanish government's budget plans for next year were vigorously attacked yesterday in a report which raised serious doubts about the country's chances of meeting the conditions for European monetary union.

At the same time, Mr Luis Angel Rojo, the Bank of Spain governor, warned that a rollover of the current budget into next year would not be sufficiently restrictive unless accompanied by structural measures to cut costs.

The Socialist government maintains it can meet targets for cutting the public sector deficit next year even if, as expected, parliament rejects its 1996 budget bill this week.

This outlook was challenged in a report by the Institute for Economic Studies (IEE), an independent body financed by private-sector companies.

The report, which dismissed the objectives of the budget bill as "illusory", warned that the government's fall-back plan of extending the current budget provided no guarantee of spending discipline.

It also said the government's proposal of making adjustments by decree-law - for instance to raise pensions and civil service pay in line with

inflation - could be blocked on constitutional grounds.

The minority government faces motions against its 1996 budget later this week from the main opposition groups, including its previous Catalan nationalist allies. Rejection will lead to the automatic rollover of the present budget until a new government takes office.

Mr Felipe González, prime minister, has promised elections in March.

The IEE warned that control of spending might be loosened in the run-up to the election. This would leave the next government with a choice between making "suicide" cuts in 1997 or missing the deficit target of 3 per cent of GDP, one of the criteria for joining the planned European single currency.

Under Spain's convergence plan, the public sector deficit needs to be cut from 5.9 per cent of GDP this year to 4.4 per cent in 1996.

The IEE said it was probably unconstitutional for the government to take budget measures by decree when its original budget had been rejected by parliament.

It would, therefore, be in the public interest for Mr González to call elections immediately after this week's debate, the IEE said.

French regulator castigates state-owned group

'Health warning' issued on Pechiney 6-month accounts

By Andrew Jack in Paris

The French financial markets regulator yesterday criticised Pechiney, the state-owned aluminium and packaging group. It said the company, earmarked for swift privatisation, had published figures that breached national accounting rules and allowed a loss to be turned into a profit in its most recent results.

In an unusual move, the Commission des Opérations de Bourse (COB) issued a public "health warning" on the Pechiney accounts for the first six months of 1995 which were published last month.

The warning will be included in the prospectus soon to be sent out as part of the privatisation process for the group, which the French government

has promised will be next on its list of sell-offs.

The COB, which supervises the operation of the French markets, has the power to discuss with all quoted companies the application of accounting principles and to recommend changes, but it has no authority to force any modifications.

Instead, in a rare and high-profile decision, it circulated a warning in which it said it "regretted" the fact that Pechiney had not complied with French accounting standards in reporting the sale of a series of subsidiaries.

If the group had done so, it noted, Pechiney would have shown modest losses rather than a profit of FF656m (\$129.5m) in the six months to June 30 this year.

The dispute arose because

Pechiney decided not to show FF700m in capital losses, incurred by selling two subsidiaries, as part of its programme of sell-offs in preparation for privatisation.

Instead, it offset them against an anticipated profit of FF710m on the sale of a third company, although this transaction had not been completed at the time of the accounts were finalised.

Pechiney played down the COB's reaction yesterday, saying that it was "a technical accounting debate" reflecting differences between French and US standards. It said it stood behind the approval given to its accounts by the auditors, and said it had chosen the option that gave the most true and fair picture of its financial position.

Separately yesterday, the French appeal court heard opening arguments in a case of alleged insider trading against two men accused of profiting from the purchase by Pechiney of the US company Triangle at the end of 1988.

The case was one of the first and most high-profile cases of insider trading in France and was the first to lead to a judgment demanding a prison sentence for those involved.

Mr Samir Traboulsi, a Lebanese business man, and Mr Alain Bouhail, former director of the private office at the ministry of economics and finance of Mr Pierre Bérégovoy, who became prime minister and later committed suicide, are appealing against their sentences of two years' imprisonment.

EUROPEAN NEWS DIGEST

Genetic rules clear hurdle

After more than a year of debate, European Union ministers yesterday agreed rules for marketing and labelling genetically engineered food. The legislation now goes to the European Parliament, where it is expected to face tough scrutiny from deputies who advocate strict regulation of biotechnology products.

The ministers' text falls short of a demand from some governments that all genetically modified foods be labelled. EU officials said a musto containing a strawberry protein, for example, would have to carry a label to alert consumers allergic to strawberries. But sugar from beet that had been genetically modified to resist disease would not have to be labelled, since the sugar would be no different from that produced by other beets.

Austria, Denmark, Germany and Sweden - which fought for tougher labelling - voted against the text.

The new marketing rules would also oblige manufacturers to obtain permission before placing new foods or ingredients on the market, with some exceptions for products that are substantially equivalent to existing foods. Approval could come from a national government, which would be required to give the European Commission and other EU states time to object. But, in some cases, a product would need EU approval under procedures involving the Commission and a committee of national experts.

Reuters, Brussels

Germany may curb jobless pay

Mr Norbert Blum, Germany's employment minister, has said he plans to introduce an annual review of individuals' unemployment payments which could cut payments by up to 5 per cent a year.

The Federation of German Unions (DGB) says it has a leaked draft of the legislation which Mr Blum is preparing, indicating that unemployment payments will be linked to the lowest pay categories rather than claimants' last wage. Opposition Social Democrat politicians and the unions yesterday vowed to oppose the plans saying they would impoverish millions of people. The DGB estimates that a third of people receiving unemployment benefits rely on other social security payments because they cannot make do with what they receive.

According to some estimates, unemployment benefits are likely to cost the government DM20bn (\$13.6bn) this year. DM2bn more than forecast.

Michael Lindemann, Bonn

'Progress' on E Slavonia status

Croatia yesterday claimed progress after talks with Serb representatives about the status of the disputed region of eastern Slavonia. Resolution of the issue would help pave the way for a wider settlement in former Yugoslavia. Recent meetings have ended in conflict, with both sides unable to agree on anything - not even the venue of future talks.

According to Mr Hrvoje Sarinac, the envoy of President Franjo Tudjman of Croatia, the two sides have decided to meet tomorrow, but have not yet agreed on how long the interim period under international supervision should last. "The principle of reintegration has been accepted, even though some questions still remain," said Mr Sarinac.

At the United Nations in New York on Sunday, Mr Tudjman warned that he would take action if talks dragged on. "Croatia sincerely hopes that such actions will no longer be required and that agreement will soon be reached on the peaceful reintegration of 4.6 per cent of still-occupied Croatian land," he said.

"At the same time, we are prepared to take other necessary steps as well. If speedy reintegration of eastern Slavonia, Baranja and Western Srijem is not incorporated into the final peace plan for the region," Washington recently made clear its opposition to any military move by Croatia against the last area inhabited by Serb rebels.

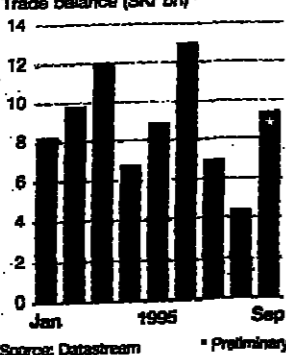
Laura Silber, Zagreb

ECONOMIC WATCH

Exports boom in Sweden

Sweden

Trade balance (\$kr bn)



Source: Datastream

The export boom that has fuelled the recovery in the Swedish economy pushed up the country's trade surplus to SKr9.4bn (\$1.4bn) in September, against SKr5.3bn a year ago and well ahead of August's revised surplus of SKr4.4bn. Exports jumped 22 per cent to SKr50.4bn, while imports rose less sharply, by 14 per cent to SKr41bn. A combination of firm export growth and low domestic demand, which has held down imports, has led to a strong trend of surpluses in both the trade and current accounts recently. The domestic economy remains sluggish, offsetting import demand stemming from an upward swing in investment. But a recent strengthening of the hitherto weak krona could have a negative impact on the export boom in the coming months.

■ The Dutch trade surplus widened to F12.103bn (\$1.35bn) in July from F11.298bn a year earlier, but narrowed from a revised surplus in June of F12.772bn.

■ Austria's consumer price index in September was up 2.1 per cent on the year, the same as August.

■ Spain's industrial production index rose 5 per cent in August from a year earlier, after growing 3.7 per cent in July.

Paris judge to rule on renting of Chirac's flat

By Andrew Jack in Paris

The French franc came under short-lived pressure yesterday after it emerged that a senior legal official had been asked to rule on whether President Jacques Chirac could be prosecuted over the Paris flat that he rents.

The franc dipped briefly to 3.5395 against the D-Mark following revelations in the French newspaper Libération that Mr Bruno Cotte, the Paris state prosecutor, had begun examining a dossier concerning Mr Chirac on Saturday.

Mr Pierre-Francois Divier, a lawyer working for Ms Evelyn Ferreira, an ecologist acting in her role as a taxpayer, confirmed yesterday that he had sent details of the case against Mr Chirac to Mr Cotte to rule on whether the president had a case to answer.

The case centres on whether Mr Chirac illegally interfered at the time of the purchase in 1977 of the spacious apartment he rents on Paris's left bank by a company partly controlled by the city.

Canard Enchaîné, the satirical and investigative French weekly paper, reported earlier this year that Mr Chirac paid FF11,000 (\$1,420) a month for the flat, which was bought by SCIM for FF4m. SCIM is 39.6 per cent owned by the Paris authorities, with the rest held by the Rothschild family.

The latest action comes shortly after Mr Alain Juppé, the prime minister, came under severe attack over alle-

gations that he had acted illegally in allocating and determining the rents in city-owned apartments in Paris rented by him and his son. The franc fell sharply on rumours that he might resign.

No action was taken in the case involving his son, but Mr Cotte ruled there was sufficient evidence to pursue Mr Juppé for "taking and maintaining an illegal interest" in awarding himself a city-owned flat in 1990 when he was the city's deputy mayor for finances and property.

Mr Cotte decided not to pursue charges on condition that Mr Juppé moved out of his apartment. The prime minister agreed to move with his family into the Matignon, the official residence.

Mr Chirac's position appears less precarious than that of Mr Juppé, partly because his flat was bought by a company in which the city of Paris only has a minority shareholding. One legal question is whether the president had any control over the company.

Mr Divier, the lawyer questioning the legality of Mr Chirac's involvement in the purchase of the apartment, has already begun separate legal proceedings in the administrative courts.

He said he had now made a separate request to Mr Cotte because he feared that the administrative tribunal might make a ruling that would not be made public and might prove contradictory.

Lira and bourse take a fall

Communists to help the right bring down Dini

By Robert Graham in Rome

Reconstructed Communism, formed from the hard line of the old Italian Communist party, yesterday decided to make common cause in parliament with its opponents on the right and vote for a no-confidence motion against Mr Lamberto Dini's government.

The move by RC deputies last night appeared to give the no-confidence motion enough for a majority in the 630-seat chamber of deputies to topple the eight-month-old government. Debate on the motion, introduced last Friday by the rightwing alliance headed by Mr Silvio Berlusconi, the former premier, will begin this afternoon with a vote due on Thursday.

The political uncertainties surrounding the likely fall of Mr Dini, the prime minister, and his government of non-parliamentarians, caused a sharp fall in the lira yesterday. The currency fell to L1,195 to the D-Mark against Friday's close of L1,138. In a week the lira has lost 3 per cent against the D-Mark.

On the Milan stock market prices dropped 2.6 per cent. Since the political crisis began last week with the removal of Mr Filippo Mancuso as justice minister, the bourse has fallen almost 6 per cent.

Until yesterday RC had been cautious about crossing the ideological divide to bring

down the government. It had sought to present its own no-confidence motion but yesterday accepted it could not muster the 63 signatures necessary.

Mr Fausto Bertinotti, the RC leader, said the most important thing was to end Mr Dini's government - even if his party's motives were diametrically opposed to those of Mr Berlusconi and his allies.

The rightwing alliance consists of four parties and five groupings of parties and individuals accounting for 292 deputies. If RC carries through with its commitment announced yesterday, its 24 deputies will make up the necessary 316 votes for a majority. The centre-left alliance backing the government and dominated by the Party of the Democratic Left can count on 309 votes.

Political analysts were yesterday cautious about the outcome, as it is still possible for politicians on both sides to break ranks. But, as newspapers were published again yesterday after a three-day shutdown caused by a journalists' pay strike, most commentators accepted the days of the Dini government were numbered.

Suggestions that Mr Dini would resign before the debate were discounted yesterday. His office made it clear he intended to fight the no-confidence motion and appeared to be encouraged in this stance by President Oscar Luigi Scalfaro.

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NEWS: WORLD TRADE

Alcatel in \$650m radio satellite deal

By Andrew Jack in Paris

Alcatel Alsthom, the French telecoms, transport and engineering group, has been awarded a contract for about \$650m to construct three satellites which will be used to create a digital radio network for the third world.

In an announcement expected to be made very shortly, the group will confirm it is beginning work for WorldSpace, a privately owned US-based company which aims to be the first large-scale provider of digital radio services by satellite.

Mr Noah Samara, chairman of WorldSpace, said yesterday that his financial backers wanted to create a radio network "with vision and a sense of social responsibility".

A number of organisations - including the British Broadcasting Corporation - are currently experimenting with digital radio broadcasts, which produce a far higher quality sound, but Mr Samara said WorldSpace was likely to be the first company to begin operating using satellites-based system of this type.

He said that the system was designed to be a cost-effective replacement for many broadcasters in the developing world, which have difficulties reaching even their own national population using shortwave and FM transmissions.

Alcatel will act as the principle contractor and will deliver the satellites operating the so-called "time-driven multiplex system" to WorldSpace once they have been launched and tested for several weeks in

orbit around the earth.

The first one - covering Africa and the Middle East - is scheduled to start operating by mid-1996, with the second for the Caribbean and Latin America in place by the first quarter of 1999 and a third for Asia by the third quarter of the same year.

Mr Samara said the technology of his company's system was far cheaper than that being discussed by other groups, because it needed to be affordable to reach the target market of audiences in the developing world.

He said that the company had already carried out successful trial runs of the technology with Motorola, the US electronics group, and was developing radios that would sell for less than \$100 to receive the satellite signals.

Discussions with a number of radio companies were taking place on the building of the receivers.

The cost of transmitting signals by the three bands emitted from each satellite to cover an area of 14m sq km would be less than \$50 per hour, according to Mr Samara.

He said that most of WorldSpace's income would come from charges to broadcasters, with further revenues likely to be generated from joint ventures with broadcasters.

WorldSpace is likely to seek a US share quotation over the coming months. Mr Samara said that he expected the company to be profitable before its satellites were launched as a result of commitments made by broadcasters.

Deal puts Bangkok's elevated transport system back on track

An impasse threatening to derail one of east Asia's most ambitious transport schemes has been overcome following agreement between the Thai cabinet and Hopewell Holdings, the Hong Kong-based developer.

The \$3.2bn development of a 60km elevated transport system through the centre of Bangkok has been held up for several years by bureaucratic wrangling and conflicts between Hopewell and the Thai government.

The project had seemed likely to be cancelled earlier this month when Mr Thaksin Shinawatra, deputy prime minister, said he doubted whether Hopewell's chairman, Mr Gordon Wu, could make his promise to have the first phase of the development working by June 1998.

The Thai cabinet has now breathed new life into the project by authorising the state railway and the ministry of transport to alter contract terms so that differences over property rights, land acquisition, financing and construction arrangements can be worked out.

Agreement on property rights is essential as Hopewell intends to help pay for the transport project by taking advantage of substantial development opportunities along the route of the elevated road and rail system, particularly around railway stations.

The plans prepared by Ove Arup, the UK design and engineering consultants, are for a dual highway, a mainline railway and a high-capacity commuter railway running along different levels of the elevated system. Shops and offices would be developed at ground level along the route.

Some 53km of the elevated railway's route follows the line of the existing state railway.

Cars, trucks, trains and shops: Ove Arup's visualisation of the completed system



The first phase of 30km, with 31 commuter train stations, is needed to be ready for the Asian Games, planned to be held in Thailand in 1998.

The Thai authorities and Hopewell say they are now close to resolving all significant issues delaying construction.

'The Thai government has to understand that this is a two-way street'

Mr Colin Weir, Hopewell's general manager in Thailand, said: "They [the cabinet] have approved many things that needed to be approved. There are only two to four significant issues that remain. The government has shown the political will necessary to make this project happen."

The original completion date for the first phase, which will connect Don Muang international airport in the north to Huamark in the east, had

been December 6 this year.

The Thai government says it will ask for progress reports every three months to ensure the new completion date of 1998 is observed.

The cabinet noted approvingly that Hopewell already had spent nearly \$300m on initial piling works and to import

machinery needed to manufacture precast concrete. It warned that Hopewell could still lose the project if it fell behind schedule.

The Hong Kong developer, however, does not feel it has been given a three-month ultimatum.

"The government has to understand that this is a two-way street. We can't progress unless the government keeps up its side of the deal as well. We have had a constant

battle with the Thai authorities, as do all private infrastructure developers," Mr Weir said.

Contract squabbles have previously forced a state-sponsored takeover of a private expressway while another private tollroad is up for sale after the government's refusal to honour the concession agreement saddled the operators with huge losses.

International banks hit by these failures have warned they will never again lend to a road project in Thailand. Nevertheless, Hopewell insists the financing of its project should not present a problem.

"We have the money to meet our commitment," Mr Weir said. "Mass transit generally isn't profitable but we can make money by developing the land bank that comes with the concession."

He was undeterred by the recent slump in the Thai property market.

Ted Bardacke and Andrew Taylor

WORLD TRADE NEWS DIGEST

EU and US near export-loss deal

The European Union and the US appear set to resolve their long-running dispute over US demands that it be compensated for loss of exports caused by EU enlargement this year, Sir Leon Brittan, European trade commissioner, said it was "entirely realistic" to expect an agreement when he visited Washington at the end of this month. A US official said it was an "odds-on bet" that an agreement would be reached, although his government still wanted further EU concessions.

Mr Mickey Kantor, US trade representative, said at the weekend that an EU offer last week on agricultural trade, the most sensitive issue in the dispute, was "a step in the right direction". The terms of the offer were not disclosed, but are believed to go some way to meeting US concerns about cereals exports.

Mr Kantor yesterday took Spain to task for its restrictive rules on the showing of US films in Spanish cinemas. He described the Spanish law on dubbing non-European films as unfair and unreasonable. "Frankly, this is a protectionist measure that has to be addressed," he said.

David White, Madrid

World music market buoyant

The global music market is set for a record year in 1995 after showing strong growth in the first half with retail sales rising by 14 per cent to \$15.92bn. A number of established markets, including the UK and Japan, achieved particularly high growth during the first half according to the IFPI, the body representing the international music industry. Sales also increased in less mature markets such as Brazil and Indonesia.

Sales have been buoyed by consumers continuing to replace their vinyl and cassette collections with compact discs. Hong Kong, Indonesia and Brazil showed strong growth, chiefly due to the reduction in sales of illegal "pirate" recordings. The South African market also expanded. Sony and PolyGram recently opened offices there and now plan to market local artists internationally.

Alice Rawsthorn

Japan sluggish on diesel cars

Japanese carmakers are falling increasingly far behind their European counterparts in exploiting growth in Europe's market for diesel cars, which are on course to capture more than 30 per cent of all new car sales in the region, according to industry analysts Automotive Industry Data. Europe's diesel car sales are likely to jump by 1.6m units a year to 4.3m annually within the next decade. But Japanese carmakers have been left "languishing in the starting blocks" because of lack of interest in diesels among Japanese consumers and in North America, the Japanese industry's most important overseas market.

Aid acknowledges that there is "one dark cloud" hanging over its forecasts - potential changes in taxation policies towards diesel fuel, should governments start to lose significant revenue because of diesel vehicles' lower consumption.

John Griffiths

Diesel Car Prospects to 2004. Automotive Industry Data, PO Box 4211 Tamworth, Staffs B79 9BY, England. £1.95

Preferential trade deals backed

The United Nations Conference on Trade and Development (Unctad) has called for a strengthening of preferential trade arrangements for developing countries to help them expand and diversify their exports. In a report prepared for an Unctad meeting in Geneva this week, the secretariat says the 24-year-old Generalised System of Preferences (GSP) remains an effective trade policy instrument to aid poor nations. However, the GSP needs revitalising in the wake of the Uruguay Round of global trade agreements and other developments.

Frances Williams, Geneva

Elf quits China project

Elf Aquitaine, the French oil group, yesterday confirmed it was cancelling its involvement in the planned Shanghai Pudong oil refinery, a project that had been estimated to cost more than \$2.5bn.

Its comments came after Mr Ye Qing, deputy head of China's planning commission who is responsible for energy policy, told journalists earlier this month that Elf had decided to withdraw after experiencing "financial difficulties". Elf rejected suggestions that it had any financial problems in the region, and said it planned to invest more than FF2bn (\$400m) in China before the end of the century, enabling it to triple sales in the country.

Andrew Jack, Paris

Brittan attempts to map out WTO's agenda

By Guy de Jonquieres in Stockholm

Sir Leon Brittan, Europe's trade commissioner, yesterday called on World Trade Organisation members to make investment rules, competition policy, the environment and labour standards the top priorities for future international trade negotiations.

He also hoped that tariff cuts agreed in the Uruguay Round world trade deal could be put into effect ahead of schedule, and that developing countries would accelerate implementation of new WTO rules on the protection of intellectual property rights.

Sir Leon's speech, at an international conference organised by the Swedish government, is the first attempt by a

Mr Renato Ruggiero, WTO director-general, yesterday welcomed the outcome of the weekend meeting of the Quad group - comprising the US, EU, Japan and Canada - especially the emphasis on new issues for the multilateral trade agenda and the proposal for a new WTO body on regional trade initiatives, writes Frances Williams.

WTO officials described the suggestion

leading WTO member to map out the next phase of the global trade policy agenda, ahead of the organisation's ministerial conference late next year.

He emphasised that the WTO needed to ensure its activities met practical economic demands and commanded wide public support. "The WTO work programme cannot be written in a vacuum," he said.

for a single committee on regional trade arrangements as "a major development" which would vastly improve the organisation's effectiveness in evaluating their compatibility with fair trade rules. Speaking in the US last week, Mr Ruggiero noted that regional agreements were increasing in size and scope, and setting their own rules in areas such as investment and competition policy.

"It must be a response to the needs of businessmen for trade and investment liberalisation worldwide. If it is to be a success, it must meet those needs in a way which produces truly global results and makes the WTO popular at home."

His remarks reflect growing concern, shared by several leading trading powers, that the task of maintaining momentum in the multilateral

trade system could become harder unless the WTO gains wider public recognition and builds a stronger political constituency in support of further liberalisation. Sir Leon's most controversial proposal is to launch WTO discussions on trade and labour standards - an idea strongly opposed by most developing countries, which fear it could become a pretext for protectionist measures by industrialised economies.

The trade commissioner acknowledged that the question risked provoking a south-south split. However, he said: "I do not believe the WTO will be able to remain silent on this issue if it wants to work effectively on others." If free traders were not seen to tackle concerns that the man in the street regarded as

legitimate, "we shall lay ourselves open to protectionist demagoguery, for example to the effect that other countries deliberately exploit child labour in order to increase European unemployment."

Sir Leon called for early expansion of WTO membership, to include countries such as Taiwan and Russia. However, expansion must not undermine WTO rules and should lead to fresh economic liberalisation by new members. He said China's WTO membership negotiations had lost most of their momentum, but must not be allowed to break down. "China cannot come in at any price. But we must all take a fresh look at our priorities, and ensure that we do not ask for more than is reasonable."

LEGAL NOTICES

MAXWELL COMMUNICATIONS CORPORATION PLC
(IN ADMINISTRATION)

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Plan of Reorganisation

DM 150,000,000 4% bonds of 1988/1993
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Holders of Distribution Certificates relating to the above bonds should present their Distribution Coupon No 3 to their own bank, or any branch of the relevant agent bank or at the relevant address set out below in order to receive the third distribution.

Failure to present the relevant Distribution Coupon for payment within one year from 31 October 1995 will result in that Distribution Coupon becoming void.

Holder of that Distribution Coupon will thereafter not be entitled to receive any distribution in respect thereof.

Agent Bank for the ECU and DM Bonds
Bayerische Vereinsbank AG
Königsplatz 12
80331 München
Federal Republic of Germany
Attention: ZKA 6

Agent Bank for the Swiss Franc Bonds
Swiss National Bank
PO Box 51
8001 Zurich
Switzerland
Attention: UNV 40

Dated 24 October 1995

AM Human
ARD Immobilien
KJA Phillips
CU Bird

Administrators of Maxwell Communications

FOR THE PROMOTER
LIMITED COMPANY

A PETITION has been presented to the Court of Session, Scotland, by Perth Public Limited Company, whose Registered Office is at Tower Place, Leith, Edinburgh, E16 7DB for confirmation of resolution of the company to be placed in liquidation.

The Petitioner prays that the Court will confirm the resolution of the company to be placed in liquidation and that the Court will appoint the Petitioner as liquidator of the company.

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SHARP
INTELLIGENT THINKING

مكتبة الأصيل

Daiwa tried cover-up, says ex-manager

By Gerard Baker in Tokyo

A former senior Daiwa Bank executive has admitted the bank's management attempted to cover up bond-trading losses accumulated by a dealer in its New York branch.

Mr Hiroyuki Yamaji, who resigned as a managing director of the bank earlier this month to atone for the losses, said he and other managers had postponed revealing the problems. He claimed they planned to write them off in the half-yearly book-closing in September, two months after they had first discovered them.

The admission is another blow to the bank's reputation and increases the likelihood that US regulators will punish it severely for its delay in disclosing sensitive information.

It will also focus renewed attention on the role of Japanese regulators, who were told about the losses in early August but did not quickly inform their US counterparts.

Mr Yamaji hinted the Finance Ministry knew about and failed to express disapproval of the cover-up.

The former manager told a newspaper at the weekend that he had gone from the bank's headquarters in Osaka to New York immediately after the discovery of the losses at the end of July and met Mr Toshitaka Iguchi, the trader responsible.

He said management concluded that they should not immediately tell the authorities, as required under US law.

"The bank thought it would be severely damaged if we had disclosed the loss immediately after it was discovered," Mr Yamaji said. He told Mr Iguchi to continue concealing the losses. "I told him to say nothing about it."

Mr Yamaji revealed the bank told the Finance Ministry of its plan to dispose of the losses. He said that, with Daiwa's president, Mr Akira Fujita, he had met Mr Yoshimasa Nishimura, head of the ministry's banking bureau on August 8.

"We told him we would have no problems in closing the mid-term books in September," Mr Nishimura simply said. "The timing is bad."

The Finance Ministry was at the time dealing with the collapse of one financial institution and the impending failure

of two more, and Mr Yamaji got the impression that bureaucrats were preoccupied. Mr Nishimura had denied he knew about the bank's plan to cover up the losses.

Meanwhile, Standard and Poor's, the US credit rating agency, said it was downgrading Daiwa's long-term rating from A-minus to BBB and its short-term rating from A2 to A3. The agency said the bank's credit quality had already been under pressure from a high level of bad loans and a weak operating environment.

Through some of the costs relating to the losses would be offset by increased profitability from interest-rate cuts in Japan, the incident represented a "major setback" to the bank, it said.

In international markets yesterday, Japanese banks faced further increases in borrowing costs. The "Japan premium" rose to 0.55 percentage points above normal interbank rates for some banks and as high as 0.85 percentage points for the weaker ones, as concern about the Japanese financial system grew among international bankers.

Screen of stability, Page 17

Sound of silence leaves farmers in despair

China's once-mighty Yellow river has become a trickle, threatening livelihoods, writes Tony Walker

Mr Shen remembers the days when he could hear the rumbling of the Yellow river behind the dykes 2km from his peasant dwelling on the north China plain.

"One after another dams have been built so you can't hear the sound of the water any more," he says.

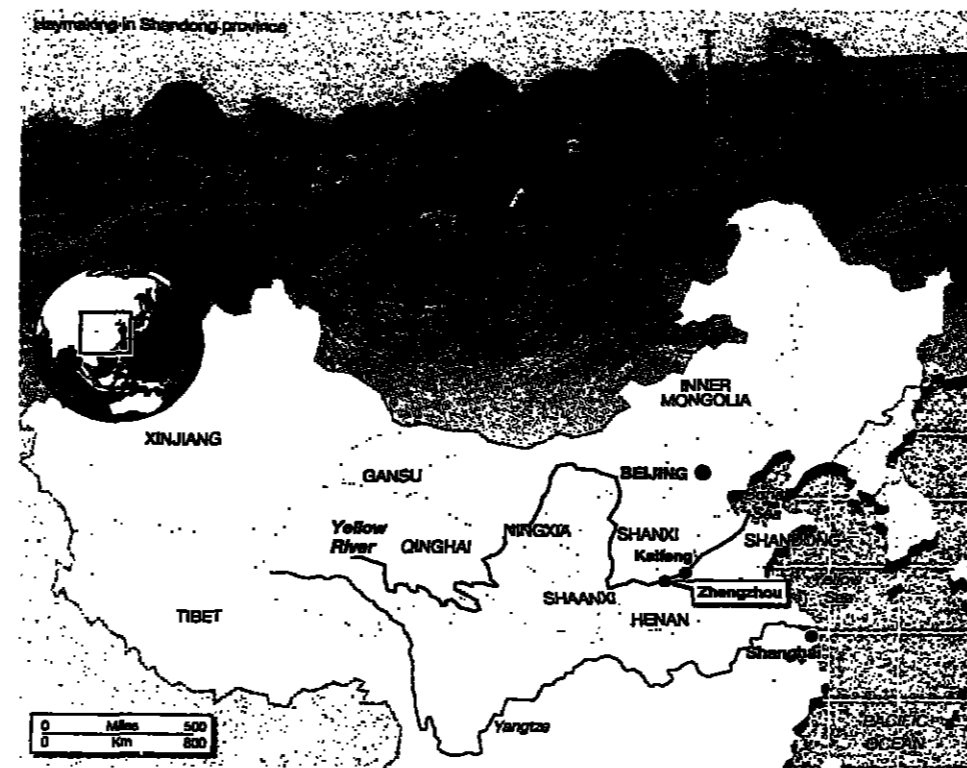
Damming, drought and over-use have slowed the river, and even stopped it altogether on occasions, bringing the threat of hardship to millions in one of China's most arid regions.

From March to June this year the river became a trickle for 400km between Kaifeng, the ancient capital, and the Bohai Sea, affecting agriculture and industry in Henan and Shandong - two of China's main grain-growing regions.

The Yellow river may have provided the cradle of Chinese civilisation, but it has also proved a curse, breaching its banks repeatedly over the centuries, devastating surrounding areas and bringing death to tens of thousands.

In the folklore of those who dwell along its 5,464km length there is a saying, *huanghe ning, tian xiangping* - when the Yellow river calms down, there is peace under heaven. The problem is that after a drought in its catchment areas since 1987 the river has become too quiet.

Mr Mi motions towards a stagnant canal that borders his rice fields, rippling under an autumn sun near the city of Zhengzhou, and notes that as recently as the late 1980s it would be filled with more than enough water from the Yellow



river to irrigate his crops. But now he is obliged to use well-water and to dig wells deeper because overuse is lowering the water table.

Grain yields are down because of shortages of water, and because well-water lacks the nutrients of Yellow river water, he says.

In Zhengzhou, Mr Zhuang Jinglin, deputy director of the Yellow River Conservancy Commission, which represents the eight provinces through

which the river flows, is confident the drought will break and the flow of water will return to normal (it is now down 30-50 per cent). But he says that even in the best years the river can no longer support rapidly increasing demands placed on it by agriculture and industry.

As China's population has grown, so has demand for water for irrigation. In 1950, the year after the Communists took over, the area of irrigated agricultural land along the Yellow river totalled 80m hectares;

now it is 706m ha. In the early years after the revolution consumption of Yellow River water was about 7bn cu m a year; now it is more than 30bn cu m with a peak of 38bn cu m in 1989. While the flow in the Yellow river is about 56bn cu m in a "normal" year, only about two-thirds is available for use. The rest washes huge quantities of silt towards the sea.

It is estimated that 1.6bn tonnes of silt from the eroding plateaus of Inner Mongolia and Shaanxi province are washed down the river each year with 700m-800m tonnes finding their way into the Bohai. The volume of silt would be enough to encircle the globe 27 times if turned into, say, one-cubic-metre blocks.

Silting is estimated to be raising the river bed 10cm a year. In some places, such as near Kaifeng, the river bed looms 17m above the surrounding countryside.

And the Yellow river delta is growing by an astonishing 24 sq km a year, or some 500m of new land stretching into the Bohai.

Disastrous land-use policies in the Yellow river's catchment areas, including indiscriminate tree-felling, especially during the Great Leap Forward of 1958, have compounded erosion problems in Shaanxi and Inner Mongolia.

Erosion gullies are growing by as much as 13m to 15m a year.

While the threat of drought, flood, pollution and the effects of erosion are bad enough, wrangling with provincial governments and local authorities brings its own headaches, says

Mr Zhuang of the Yellow River Conservancy Commission.

Lack of co-ordination among various users of the scarce river water and an absence of consolidated laws and regulations make the task of bodies such as the conservancy commission especially difficult. Excessive use upstream deprives users downstream.

Mr Zhuang gives the example of water use in Inner Mongolia and Ningxia autonomous region where 6 cu m of water is expended on growing 1kg of grain whereas in the lower reaches 1 cu m is used to produce the same amount.

The low price for water causes widespread wastage. "The cost of 1,000 cu m of water is equivalent to a bottle of mineral water in the market, with the result people don't even think about conserving Yellow river water," says Mr Zhuang.

China has various schemes to increase the flow of the Yellow river, including an ambitious programme to divert waters from the catchment of the Yangtze, the country's largest river. But this project in the remote western region of Qinghai, involving the construction of a massive dam and the building of tunnels through mountains to connect the watersheds of the two rivers, would be an enormous, costly engineering feat.

At the earliest, according to Chinese reports, construction would begin in 2020 and perhaps take the best part of a decade. Farmers such as Mr Mi have some time to wait for a return of the sounds of rushing waters.

Military bars Burmese opposition leader from party post

By Ted Baradacke in Bangkok

Burmese opposition leader Aung San Sun Kyi has been denied permission by the country's military government to resume the leadership of the political party which she helped to found.

Ms Sun Kyi was reinstated as general-secretary of the National League for Democracy earlier this month after being released from six years of house arrest in July.

The move was seen by many political observers as a challenge by the

NLD to the government, a warning that if it wanted to negotiate with the opposition it would have to deal directly with Ms Sun Kyi.

However, Burma's election commission ruled that the reappointment of Ms Sun Kyi was illegal, citing a 1991 rule outlawing changes in party leadership without government consent.

Former political prisoners Mr Tin Oo and Mr Kyi Maung were also denied permission to take up posts as vice-chairmen of the NLD.

The party can still function legally with its old leadership, under the chairmanship of Mr Aung Shwe, a former military leader.

The NLD swept elections held in 1990 but the military refused to hand over power. The opposition party was forced to expel the three leaders in 1991 to conform with a regulation preventing political parties from giving membership to people charged with crime.

Observers in Rangoon said the rejection of Ms Sun Kyi - who was detained, but never tried, on charges

of endangering national security - was a further sign that the possibility of direct talks between the government and the NLD was increasingly unlikely.

Ms Sun Kyi has called for talks but the military government has taken a harder line, preferring to keep political activity confined to a government-dominated national convention, charged with drawing up a new constitution for the country.

The convention resumes on November 28 and both sides are understood

to be struggling with how to respond to the approaching stalemate.

New ammunition for Burma's critics is expected later this month when the United Nations releases its annual survey of human rights in Burma. In spite of the release of Ms Sun Kyi and some other high-profile political prisoners, the report is expected to highlight the fact that thousands of political prisoners remain in jail and to criticise the government for practising forced labour and involuntary resettlement.

S Korean leader orders probe into slush fund claim

By John Burton in Seoul

South Korean President Kim Young-sam yesterday ordered a "thorough" investigation into allegations that his predecessor, Mr Roh Tae-woo, controls a Won400bn (\$520m) political slush fund.

Mr Kim was responding to a confession by a close aide of Mr Roh that Won36.4bn uncovered in a hidden account at Shinhan Bank was part of a secret political fund allegedly created by the former president.

Although Mr Kim is seeking to mollify public anger about the affair, an aggressive probe carries political risks. An investigation could alienate ruling party conservative MPs associated with the former Roh government and provoke them to defect to a new rightwing group, the United Liberal Democrats.

Roh supporters help form the largest faction within the ruling Democratic Liberal party and they have engaged in an internal power struggle with the moderate minority faction associated with President Kim ever since he succeeded Mr Roh in February 1993.

The government is in danger of losing its 15-seat majority in the 299-member National Assembly as some conservative DLP legislators switch to the ULD, including one yesterday. Aides to President Kim, however, hope that possible damaging information resulting from the probe will harm the reputation of defecting MPs and hamper any rightwing campaign in next April's parliamentary elections.

It remains uncertain to what extent prosecutors will be allowed to conduct their investigation since it could lead to awkward questions about the possible secret financing of other politicians. Opposition parties have suggested that some of the money allegedly raised by Mr Roh was used to finance Mr Kim's 1992 presidential campaign.

Meanwhile, government prosecutors are under pressure to answer several questions about the secret fund allegedly held by Mr Roh, including the size of the hidden accounts, who contributed the money, and how it was to be used.



Roh: secret funds alleged

Many analysts believe the fund may have been financed by forced donations from business groups in return for favours, including contracts for infrastructure and defence projects. Mr Chung Ju-yung, founder of Hyundai, alleged in 1992 he had to make an annual contribution of Won10bn to the Roh administration.

The Seoul stock market general index fell 2.3 per cent yesterday because of concerns that big industrial groups and banks may be implicated in the scandal and be subject to tax investigations. Conglomerates close to the Roh administration, such as the Sunkyong and Dongbang groups, suffered steep falls in share prices, as did Shinhan Bank.

The funds may have been collected to finance the election campaigns of politicians belonging to the ruling party's majority Democratic Justice faction, which consists of supporters of the former military-backed governments under Mr Roh and Mr Chun Doo-hwan between 1980 and early 1988.

But gaining access to the funds, which are believed to be hidden under false or borrowed name bank accounts, has become difficult after President Kim in August 1993 ordered the use of real names in all financial transactions, with transfers being verified through identification checks.

This poses a problem for those who have tried to hide money from the tax authorities, with the owners of an estimated Won10,500bn in financial institutions still unidentified since the real-name system went into effect.

ASIA-PACIFIC NEWS DIGEST

HK regulators to co-operate

The Hong Kong Monetary Authority, the colony's central bank, and the Securities and Futures Commission, the corporate regulator, said yesterday they would strengthen co-operation in areas of common regulatory interest. Where powers overlap in respect of a financial institution or financial group, the two will appoint a co-ordinator to establish regular exchange of prudential information on an institution's financial position, the fitness of its management, and other supervisory matters.

Simon Holberton, Hong Kong ■ Hong Kong's annual inflation rate was 8.9 per cent in September, up from 8.3 per cent in August. The colony's consumer price index rose 1 per cent in September, compared with the previous month. A government economist attributed the rise to food costs, due to bad weather. He said there was no indication it marked a rise in prices for the rest of the year.

Simon Holberton

Ambitious plan for Mekong

The six Mekong River countries - Burma, Cambodia, China's Yunnan Province, Laos, Thailand and Vietnam - have agreed at a conference in Bangkok to an ambitious master plan for developing the region. The plan, negotiated with the Asian Development Bank, consists of joint development strategies in six areas: energy, transport, telecommunications, tourism, human resources and environment. Conference participants said the Greater Mekong Sub-region, with a population of 25m, could become the next area of booming economic growth in Asia. At a meeting yesterday to announce the plan, the private sector was invited to provide much of the \$20bn in capital needed to implement the proposals.

Ted Baradacke, Bangkok

Vietnam merges ministries

Vietnam yesterday officially confirmed a series of sweeping changes to the structure of government, involving the fo nation of three new super-ministries. The foreign affairs ministry said a total of eight government bodies would be merged to form the three new departments.

A new ministry of agriculture, water and forestry will replace the previous agriculture, light industry, and energy ministries. The heavy industry, light industry, and energy ministries will be merged to form a ministry of industry. And a new ministry for planning and investment will encompass the former state planning committee and the state committee for co-operation and investment. The changes were described by local press as the most far-reaching reform enacted under the current National Assembly term. The official press said the main thrusts of the move were aimed at eliminating overlapping posts in the cabinet and merging government bodies which share similar functions.

Hanoi, Reuters

Tourists drawn to Asian eclipse

Tourists flocked to some of Asia's most magnificent sites yesterday to watch the rare shadow of a total solar eclipse. In Cambodia, hundreds arrived at the 12th-century Angkor Wat temple, the world's largest religious structure, for today's phenomenon. Many more gathered in India, Pakistan, Bangladesh, Burma, Vietnam, Thailand and Malaysia for the brief spell of daytime darkness as the moon blocked the sun. The moon's shadow, which varies in size as it races along a band through South and South-east Asia, was expected to be about 100km wide at most.

Angkor Wat, Reuters

Have a nice day! Fly the Austrian way!

Destination	Flight Time
Amsterdam	dep 07:00
Berlin	dep 07:05
Bonn	dep 07:10
Bremen	dep 07:15
Düsseldorf	dep 07:20
Frankfurt	dep 07:25
Garmisch	dep 07:30
Hamburg	dep 07:35
Köln	dep 07:40
Munich	dep 07:45
Nuremberg	dep 07:50
Paris	dep 07:55
Rome	dep 08:00
Stockholm	dep 08:05
Toronto	dep 08:10
Zurich	dep 08:15

Austrian Airlines have made their timetable the best yet: With the introduction of the 1995 Winter timetable, we will fly you on exclusive daytime flights via Vienna to a total of 6 cities in the Middle East and Cyprus. Prompt connecting flights in the late morning guarantee the shortest possible transfer times at Vienna International Airport which, with its modern infrastructure and excellent shopping facilities, is the ideal link for flights to the Middle East and Cyprus. If you wish to receive our current timetable, please fax us a copy of your business card on ++ 43 1 68 79 28.

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NEWS: INTERNATIONAL

Forex surge masks maturing market

For all the thousands of words written about events in the foreign exchange market every day, there is only one definitive estimate of the market's size: the Bank for International Settlements' triennial survey.

For this reason it is a safe assumption there will be innumerable references in the coming years to the figure of \$1.230tn (£783bn), the estimate of daily turnover revealed in the latest survey, published yesterday and based on data collected in April this year.

The main importance of this figure, almost fresh as a daisy when viewed in isolation, is that it confirms the view of some leading industry participants that the world's foreign exchange business is now a maturing industry.

At first blush, this is not the case. Estimated global turnover is shown to have grown by 50 per cent from \$920tn when the previous survey was conducted, in April 1992. The rate of growth also increased, with the market growing by an estimated 39 per cent between 1989 and 1992.

When, however, allowance is made for the sharp depreciation of the dollar against other

leading currencies over this period, the survey finds that the market grew "in the region of 30 per cent", much the same as in the previous three-year period.

This trend is more consistent with general market sentiment than the unadjusted figures. Last month, with turnover in London shown to have grown 60 per cent, and activity in New York up by 48 per cent, the surprise of most market participants verged on disbelief.

Mr Yves Perreard, head of foreign exchange management at UBS in London, singles out a number of factors which explain this surge in growth.

First, the record profits experienced in 1993, when volatility in the European exchange rate mechanism contributed to high levels of activity, attracted a number of new entrants into the industry. This trend is still evident today.

Second, cross-border investment flows, including speculative activity by hedge funds, have grown considerably. Corporates have also been more active again.

The downside of these trends, however, is that "mar-

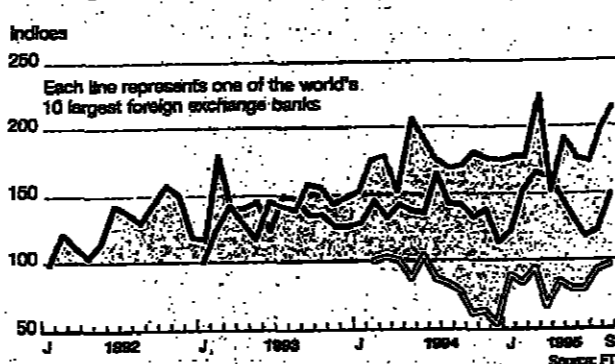
gins are drying up in a big way," said Mr Perreard. The response of many banks, he believes, has been to increase their intra-day trading activities. With exchange rate volatility less than in recent years, Mr Perreard believes there has been a shift towards trading in larger amounts, but on a short-term basis.

These trends are borne out by profits which have not kept pace with turnover growth. Foreign exchange profits fell across the board at leading banks in 1994, compared with 1993. While 1995 has been a better year than 1994, profits in most cases are still a long way short of 1993 levels.

Activity among institutional investors has been more subdued as difficult market conditions have made asset managers more reluctant to take aggressive trading stances. Position-takers who put their own capital at risk, such as hedge funds and the proprietary trading desks at banks, have also been more cautious in their trading strategy.

Both these factors have contributed to a decline in market liquidity, a factor much commented on by market participants, despite the overall

Foreign exchange turnover (London)



Daily average (\$bn)	April 1989	April 1992	1989-92 % change	April 1995	1992-95 % change			
	Amount	share		Amount	share			
UK	184.0	26	290.5	27	55	464.5	30	80
US	115.2	16	166.9	18	45	244.4	16	46
Japan	110.8	15	120.2	11	8	161.3	10	34
Singapore	55.0	8	73.8	7	34	105.4	7	43
Hong Kong	48.8	7	60.3	6	24	80.2	6	50
Switzerland	56.0	8	65.5	8	17	85.5	5	32

*Adjusted for local double-counting by country

Source: BIS

*Adjusted for local double-counting by country

growth in turnover. As the turnover graphs of some leading banks show, the snapshot of trading activity, comparing April 1992 with April 1995, also disguises some significant fluctuations within this period.

Whatever the growth trends, the absolute volume of daily trade remains enormous. Figures from Barings Securities in London, for example, show that total global turnover in equity markets was \$21,000bn last year, a mere 17 days of

Philip Gawth

UN outlasts 150 wars, but cash still a worry



Fifty years ago, the new 50-member United Nations had no permanent home. It had to move from temporary quarters in a Manhattan hotel out to a Bronx college campus and then for four years to a former industrial plant before its sparkling mid-town New York headquarters was completed in 1952.

The staff were few but star-eyed and dedicated to the task of saving "succeeding generations from the scourge of war".

When I began reporting from the UN in the late 1950s, the cold war already had dashed early hopes for east-west co-operation, and the organisation was grappling with problems that persist to this day, even as heads of state or government representing more than 150 of the current 185 members attend the world's most lavish birthday party.

Some 150 wars have been fought since 1945 and it would be easy to write off the UN as an abject failure. But the R-words heard at the commemorative session ending tonight have been "reform" and "rejuvenation", not "revocation" or "replacement". Rebuffing hostile critics in the US Congress, President Clinton has promised that the UN will back the UN for the next half-century.

Still, Washington is a major cause of a dire problem, a financial deficit of more than \$30bn, for about one-third of which the US is accountable. Anyone who has spent much time around the UN knows that a faltering cashflow is no new phenomenon.

In 1994, we journalists sat on our hands for most of an entire General Assembly session that was aborted because Moscow's arrears exceeded two years' assessments, necessitating withdrawal of voting rights.

But then, to ensure the rule, the assembly chose not to vote. What may relieve the current financial crisis is the impending replacement by a Nato force of UN troops in former Yugoslavia costing some

\$5m a day. UN peacekeeping that now numbers 18 operations in various parts of the world began in a small way in 1947 with military observers in the Middle East and took off nine years later with the first UN emergency force following the retreat of British, French and Israeli troops from Suez.

For much of its history, conflict in the Middle East was the UN's most pressing problem and our main news story. It was also a test of a reporter's stamina, what with day-long, night-long debates and a record list of resolutions. But thanks to the recent peace accords there have been relatively few mentions of the Arab-Israeli conflict this year.

Michael Littlejohns reflects on 38 years of reporting on world body

Today's main question is how to adapt the UN to the post-cold war world, curb mounting costs and craft a more democratic institution in which small countries do not feel overshadowed and intimidated by great powers.

Egypt, South Africa, Ethiopia and Liberia were the only African members when the UN began. In the aftermath of the decolonising surge, Africa now counts more than 50 members, the largest single regional group. At the height of the cold war both Moscow and Washington coveted their General Assembly votes; today some of them feel neglected.

The US, Britain and France are calling for permanent seats for Germany and Japan in the Security Council. That would still exclude the third world from what Zambia's President Frederick Chiluba termed scornfully on Sunday the "high priests" in their "sanctuary of the holy of holies".

President Roosevelt, the principal architect and originator of the term "United Nations", never envisaged an organisation of the size and scope of today's organisation. He even thought of offering his New York estate for a headquarters and himself as secretary general. What he and British prime minister Winston Churchill created has become a vast bureaucracy which, its harshest critics say, is a collection of official fiefdoms whose members are over-compensated and under-worked while enjoying unseemly diplomatic privilege and impoverishing hard-pressed taxpayers. None of this is really true. The UN cannot even sell duty-free liquor in the delegates bar.

Salaries have inched up from Dag Hammarskjöld's modest \$35,000 a year as the second secretary general to current UN chief Boutros Boutros Ghali's present, though still modest, \$286,075. He recently complained that it was difficult to attract good people to the UN because pay was uncompetitive and there were no perks. His own perks are a handsome residence on the river and an armoured-plated Mercedes-Benz limousine.

For those who have seen it all before, the hoopla for the 50th birthday is a sideshow compared to what happened in 1990, when the cast of characters in New York included Dwight Eisenhower, Nikita Khrushchev (whose shoe-banging in the General Assembly is part of UN lore), Fidel Castro, Gamal Abdel Nasser, Tito, Kwame Nkrumah and Soekarno. The Soviet leader wanted to destroy the UN, whereas today's leaders seem keen to build it up and make it better able to cope with the challenges of a new century.

Thirty-five years ago, President Castro spoke in the Assembly for more than four hours. But Krishna Menon of India addressed the Security Council for two days running in a Kashmir debate a few years earlier, and Pakistan's Zafarullah Khan took about as long to reply. See Editorial Comment

Foreign company boycott urged in Libya

Two state-run Libyan newspapers yesterday urged the government to start boycotting foreign companies from countries which abide by United Nations sanctions against Libya, writes James Whittington in Cairo.

In line with the government's policy of increasing economic xenophobia, Achams and Al-Jamahiriyah both criticised companies which profited from

Libyan business while their governments maintained economic sanctions on the country.

"We don't want... [economic] areas in Libya placed under the control and exploitation of international companies whose states implement the unjust decision of the so-called Security Council," stated Achams.

Sanctions were imposed on Libya in

1992 and widened a year later after it refused to hand over two suspects of the 1988 bombing of a US airliner over Lockerbie in Scotland.

Diplomats said they were surprised by this new line as those foreign companies which continue to operate in Libya have become crucial to the survival of the country's economy.

In particular, foreign activity and

investment have kept oil production steady at 1.4m barrels per day. A number of European companies - Agip of Italy, Total of France, Repsol of Spain and OMV of Austria - have been heavily involved in recent years.

One diplomat said that if the government did decide to move against foreign interests it would be like "cutting off the nose to spite the face".

ABACHA'S AGENDA

FOR ECONOMIC RECOVERY AND DEMOCRACY

1. The 35th Independence Anniversary Addresses

By the Head of State and Commander-in-Chief of the Armed Forces, General Sani Abacha, is a historic document on statehood. The Address is a brilliant example of vision and compassion which are the virtues of good leadership. The Ministry of Petroleum Resources, which I have the privilege of heading, commends General Sani Abacha for his frankness and courage in tackling the serious issues that trouble our great nation. As the bulwark and economic fortress of the country, my Ministry would like to highlight aspects of the Address which relate to the oil industry and the overall destiny of the nation. These aspects are the programme of economic recovery, the crusade against corruption, justice in revenue sharing and democracy, the political transition programme and stability as well as the understanding of the international community.

2. Combating Corruption and Enhancing Economic Recovery

This Ministry supports Government's efforts to instill probity and accountability in the nation. Since the inception of the Abacha Administration, the issue of corruption has received priority attention. The institution of probe panels on NINE strategic sectors and the promulgation of decrees on money-laundering and bank failures demonstrate government's firm resolve to sanitize the economic environment for growth and sustainable development. The petroleum sector will benefit immensely from the bold initiatives of General Abacha in this respect. One positive effect of the on-going reorganisation and restructuring at the Nigerian National Petroleum Corporation (NNPC). Already, the measures taken against corrupt and unprofessional executives have begun to have salutary effect on the oil industry and the international community has responded positively to the initiatives to purify the industry for efficiency and accountability.

In this regard, I would like to put the international community on notice that the Abacha Administration is determined to deal decisively with foreign fraudsters who fraudulently diverted, through European and American banks, over US\$15 million from Nigerian crude oil sales. My Ministry has instituted legal process not only to recover the stolen money but to EXPOSE the fraudsters and the foreign banks involved. This measure is part of the initiatives being undertaken for combating the nefarious deeds of international syndicates which work to undermine Nigeria's efforts to ensure accountability and probity in the oil industry.

Another manifest example of the Government's commitment to efficient management of the nation's resources is the establishment of the Petroleum Trust Fund. This is the first time in our nation's history that such a policy of prudence is being put in place to provide a steady source of funds to finance strategic sectors. As the fulcrum of the nation's economy, my Ministry is happy to be the custodian of the revenue accruing to the Fund. In less than a year the Fund has earned \$30 billion, the biggest asset of investible revenue source by Nigeria without resorting to external borrowing. I am delighted to note that the Board of the Fund has decided to disburse the money to reactivate and regenerate priority sectors such as industries, roads, health, education, public utilities, etc. The Fund is therefore an extension of the capacity of the petroleum industry to fuel the nation's economic recovery, political stability and the democratic process. Also commendable is the Head of State's effort to diversify the revenue base of the economy through the revival of agriculture and exploration of solid minerals. This diversification drive will enjoy the support of my Ministry through the various measures being taken to protect oil revenue from waste, corruption and inefficiency. To enhance productivity and social peace, the Head of State graciously lifted the ban on employment in the civil service imposed by the previous administration. This is another confirmation of the Administration's concern for the welfare of the masses who have been victims of harsh austerity measures in the past ten years or so.

3. Justice and Revenue-sharing

The decision of Government to operate the formula of 13 per cent revenue-sharing based on derivation is another brave act of statehood. The approval is a historic development for the long suffering people of oil producing communities. Which considered along with other agencies such as the Oil Mineral Producing Areas of Development Commission (OMPADEC) and the Petroleum Trust Fund, the 13 per cent derivation principle is a powerful instrument of promoting fairness and justice in the distribution of national resources. The move will not only enhance unity and confidence in the federation; it will encourage oil-producing communities to become more committed and vigilant in protecting vital infrastructure and assets of the oil industry.

4. Transition Programme and Stability

It is true that economic development cannot succeed without political stability. From the outset, the Abacha Administration left no one in doubt that the stability and unity of our great nation are the top priorities of government. The work of the National Constitution Conference and the Draft Constitution showed determination of Nigeria to lay a solid foundation for good governance and democracy.

The programme of transition outlined by the Head of State in the Address is an honest and practical one which deserves the support of the political class. Cooperation with government is essential for a hitch-free implementation of the programme. I would like to call on all genuine patriots to rise up to the Challenge of nation-building unfolded in the transition agenda.

The decision to save the lives of the coup convicts shows that General Sani Abacha is a magnanimous man who is determined to foster national reconciliation and harmony. The Head of State has demonstrated that he is a man of peace by going ahead expeditiously to resolve the matter in a manner that brought happiness to the families and friends of the affected persons and to the nation in general.

5. Support of the International Community

In the Address, the Head of State reaffirmed Nigeria's commitment to the goal of building peace in the international system. He also expressed the hope that Nigeria's traditional friends and partners in development will show appreciation for our nation's peculiar circumstances by responding positively to steps Nigeria is taking to improve the economy and build peace.

The oil sector has been the most dynamic instrument in the conduct of Nigeria's external relations. I wish to assure the international community of Nigeria's resolve to manage the oil industry efficiently in order to ensure security of investments and to sustain the confidence of our international partners.

I urge the international community to reciprocate Nigeria's positive posture in this regard. Our oil has provided a steady source of energy for the economic prosperity of many nations. We expect the rest of the world to contribute to our peace by changing its attitude of hostility. In particular, I urge the Government of the United States, as Nigeria's biggest and most reliable customer in the oil industry, to review her policy of sanctions on Nigeria. By relaxing these measures, the US will facilitate the quick return of peace in Nigeria. I equally call on the member nations of the European Union and other friends of Nigeria to reconsider their policies by giving positive support to the transition programme set out by General Abacha. It is by doing so that they can assist Nigeria to peacefully overcome her political difficulties and confidently build an enduring democracy that will benefit Africa and humanity at large.

Chief Dan L. Etete
Minister of Petroleum Resources
Federal Republic of Nigeria

LONG LIVE THE FEDERAL REPUBLIC OF NIGERIA

Israel raises lending rate as fiscal worries grow

By Julian O'Zanne in Jerusalem

Israel's central bank yesterday signalled a rise in its key lending rate, reflecting growing concern about the expansion of the money supply, a significant increase in the budget deficit and continued inflationary expectations in the rapidly growing economy.

The rise in the central bank's key lending rate charged to commercial banks from 13.7 to 14.2 per cent, which was announced in the Bank of Israel's monthly review of monetary policy, came after a similar increase last month. Until September the key interest rate had been gradually falling from a high of 17 per cent in November 1994. Inflation, which last year reached 14.5 per cent, is expected to fall to around 9 per cent this year.

In a statement the bank called on the government to curb public expenditure to support restrictive monetary policy and to help ease the expanding current account deficit, expected to grow from \$2.5bn last year to \$4bn (\$2.5bn).

"The continued acceleration in economic activity and the continued large current account deficit require a policy of fiscal restraint which will support the monetary policy and contribute significantly to economic stability and continued growth," it said.

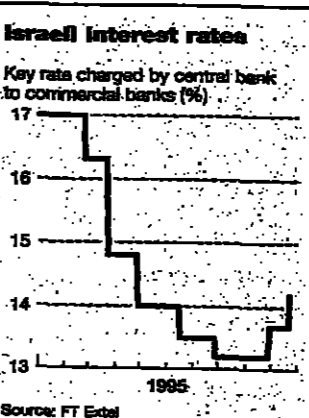
Figures published yesterday by the Central Bureau of Statistics underlined the need for considerable fiscal restraint. The figures showed that for the first time since 1991 the fiscal deficit was expected to grow from 0.9 per cent of gross domestic product in 1994 to 3.6 per cent of GDP - much higher than the government's own target of 2.75 per cent.

The expansion in the budget deficit, largely due to lower than expected revenues, comes when net private savings show an increase from 10.1 per cent of disposable income last year to 12.5 per cent in 1995.

Palestinians decorated the West Bank town of Jenin yesterday in anticipation of an Israeli troop pull-out, as controversy grew in Israel about the mushrooming costs of an army redeployment from big Palestinian population centres which will formally begin tomorrow, writes Julian O'Zanne in Jerusalem.

Palestinians festooned Jenin - the first of seven towns to be evacuated by the army under the recent peace accords - with Palestinian flags and streamers as expectations grew that an Israeli troop withdrawal could be completed by November 10.

In Israel Treasury officials criticised the Israel Defence Forces for declaring on Sunday that the costs of redeployment in the West Bank would reach \$1.3bn.



Source: FT Edit

(\$636m), more than double the amount approved.

The Treasury, already under pressure to further curb expenditure because of a widening deficit which has grown from 0.9 per cent of gross domestic product in 1994 to 3.6 per cent this year, assessed the army of inflating figures and said it would be impossible to find further budgetary support for the army.

The army, however, said that, without increased funds, it would be difficult to fortify the line between Israel and Palestinian controlled areas to prevent "terrorist" attacks.

Israel is to complete its first phase of redeployment from six towns and partial redeployment for Hebron by the end of December, ahead of the Palestinian elections scheduled for January 20.

Investment and not by private consumption. Private consumption is expected to fall from 8.9 per cent last year to 6.3 per cent.

The central bank, which has been pressing for further expenditure cuts of at least \$1.2bn (\$426m) from next year's budget, said it was concerned about continued expansion in money supply. The M1 grew 15 per cent in the first eight months of the year and expanded by 4.3 per cent last month. Expectations for 12-month inflation of 10.4 per cent are above the government's target of 8-10 per cent.

Business leaders condemned the rate rise and renewed calls for curbing the independence of the central bank.

Israel's federation of chambers of commerce said high interest rates would hurt business and exacerbate the balance of payments deficit. Share prices on the Tel Aviv stock exchange closed up 0.2 per cent after the market had anticipated the interest rate rise on Sunday when shares closed down almost 1.5 per cent. See Feature

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Dole wins Wilson's backing

By Jurek Martin in Washington

Governor Pete Wilson of California, his own presidential ambitions frustrated, yesterday endorsed Senator Bob Dole as the Republican party's nominee next year. He did so with a calculated side-swipe at retired General Colin Powell, one of the two most talked-about undecided candidates along with Congressman Newt Gingrich, the Speaker of the House.

The majority leader, Mr Wilson said, was "the best general" to lead the party into next year's campaign. Gen Powell, who has promised a decision on his own plans next month, lacked the "political experience" to beat President Bill Clinton.

Mr Dole returned the compliment by naming the governor overall chairman of his campaign in California, the state on which the outcome of next year's presidential election may well hang.

But Mr Wilson was quick yesterday to quash speculation that his early endorsement was designed to increase his chances of emerging as a running mate for Mr Dole. He would not accept the post if it were offered, he said.

The value of the Wilson endorsement has probably diminished. The governor's home state popularity fell drastically during the course of his own abortive run for the nomination, largely because Californians objected strenuously to his breaking an explicit promise not to seek national office if re-elected last year.

But it still constitutes the first good news for Mr Dole in some time. Although none of the other nine declared Republican candidates has broken out of the pack to offer a serious challenge, the majority leader finds himself trailing both Mr Clinton and Gen Powell in most national polls.

Mr Dole has found himself drawn into sharp exchanges with conservative candidates over tax reduction, with Senator Phil Gramm of Texas and recently with Mr Steve Forbes, the magazine publisher and latest entry into the race.

Equally marked has been an odd war of words with Mrs Arianna Stassinopoulos Huffington, who failed to get her congressman husband elected to the Senate from California last year, now runs a conservative salon in Washington, and has clearly hitched her star to Mr Gingrich's wagon.

She has called Mr Dole "a tired old man" on television and wrote last week that his front-running campaign was about to fall down a trap door, allowing "the right nominee" to emerge.

That is widely interpreted as a sign of the Speaker's current thinking, though officially he says he will make no move until Gen Powell does.

New Castro greeted by a new Harlem

By Quentin Peel in Harlem, New York

Thirty-five years ago, President Fidel Castro of Cuba was thrown out of his hotel on New York's Park Avenue, and forced to move with his revolutionary entourage to the Theresa hotel in Harlem.

He might have been expelled by America's polite society, but he was ecstatically received by the poor blacks of the ghetto.

On Sunday night he was back in the heart of the city's black community, still revelling in his role as an outcast. Gone was the smart double-breasted suit and sober striped tie he had worn at the United Nations' General Assembly that morning.

Back were the familiar olive-green fatigues and furage cap, after a quick change at the Cuban UN mission.

In the all-ticket audience at the Abyssinian Baptist church on West 138th Street they loved every word he had to say. And yet the Harlem Fidel Castro was revisiting has changed.

A subdued crowd in the street greeted Mr Castro's arrival - barely a couple of hundred strong, and they included two groups of protesters, one for and one against his rule in Cuba.

"It is symbolic," said Mr Omar Kayoum, a big bald man in a green T-shirt, who said he was a Sunni Moslem. "Most of the people here came out of courtesy. When he came in the 1960s, it was something good."

Harlem was all about power to the people and the revolution. Fidel Castro represented all that. But we have to solve our own problems today. He doesn't have the



Castro addresses supporters in a Harlem church

answers. We should be reflecting on where we are going, on the message of the Million Man March."

They did not all agree. "They put him here as a punishment, and he captured the hearts of the people," said Mr Edgar Nkosi, a diminutive figure sporting dreadlocks and dark glasses.

Inside the church, Mr Castro denounced the US trade embargo against his country, calling it a crime against humanity, a "noiseless atom bomb" destroying the lives of women and children.

He sang the praises of Cuba's education system, and all the teachers and doctors it turns out.

He mocked President Bill Clinton, at that moment hosting a fancy reception for all the other heads of state and government at the New York public library, and he ridiculed Mayor Rudolph Giuliani of New York, who had thrown a splendid

dinner party on Saturday night without him.

"The mayor said I was a demon, and the demon would not be invited to dinner," he said to roars of applause. "I'm going hungry on my first day in New York." The audience loved it - they don't like Mayor Giuliani in Harlem.

He confessed, however, that he had been invited out by a businessman instead. Indeed, no fewer than 230 businessmen have applied to meet him on his four-day stay, according to the New York Times.

The truth is that Harlem has changed, and so has Fidel. The gospel, whether Baptist or Moslem, is closer to the fight against crime and drugs in Harlem than a communist revolution. And the Cuban president would dearly love to entice more capitalist investment to his country. In New York at least, the fatigues are only for special occasions.

Falklands fishing deal 'in months'

By Quentin Peel in New York

Britain and Argentina hope to agree within months on a new fishing deal for the disputed seas surrounding the Falkland Islands, President Carlos Menem of Argentina said yesterday.

The agreement, by early next year, would build on the oil exploration deal recently signed between the two former combatants in the 1982 Falklands conflict.

Mr Menem and Mr John Major, the British prime minister, were due to discuss progress on the fishing agreement, as well as plans to boost trade links between the two countries, at talks in New York yesterday - the first meeting between the British and Argentine heads of government since hostilities ended.

The bilateral summit follows the signing of the oil deal last month. This allows the Falkland Islands' government to

auction licences in its territorial waters. Argentina had previously threatened to blacklist any oil company which bid for a licence.

Mr Menem said yesterday that relations between his country and Britain were good.

He praised the fact that British companies had restarted investing in Argentina, and were participating in the country's privatisation process.

He expressed confidence that a fishing agreement, allowing

both sides to fish in the disputed territorial waters, would be in place by the end of the year, or early in 1996.

At the same time, he insisted that the Argentine claim to sovereignty over the islands, which his government still maintains, has been "placed under an umbrella."

"We will be showing the world that only through peaceful negotiation and talks can one reach an acceptable settlement," he said.

St Lucien calls on Québécois to vote Yes

Mention the name Lucien Bouchard to a Canadian these days and the reaction is bound to be unusually forceful.

To Quebec secessionists, Mr Bouchard has become nothing less than a saviour. He has electrified audiences up and down the St Lawrence River in the past few weeks, instilling new hope that the separatist camp can win the referendum next Monday on independence for Quebec, and go on to create a dynamic new country.

Among his political foes however, Mr Bouchard is despised. He is reviled not only for using his position as leader of the official opposition in the federal House of Commons to break up the country, but also for turning on some of his closest friends and erstwhile political allies.

Opinions about Mr Bouchard have become even more polarised since he took the helm three weeks ago of what had been a floundering separatist campaign. Mr Bouchard has overshadowed and outshone Mr Jacques Parizeau, Quebec's premier, who is the nominal head of the Yes forces.

Opinion polls published in recent days show that the Yes side, but written off before Mr Bouchard took over, is now overtaking the pro-Canada camp.

Support for independence looks more and more likely, report Bernard Simon and Robert Gibbens

Mr Bouchard has swayed many Québécois by playing down the risks of independence. Instead, he has stressed that a Yes vote would rekindle Québécois pride and give them the bargaining power they have so far lacked to forge a new economic and political partnership with the rest of Canada.

"A Yes vote will be something magic," he promised at one rally. He shrugged off Québécois worries that they might lose their Canadian passports by asking what was wrong with a Quebec passport.

Angus Reid, a polling group, said last week that "Mr Bouchard's credibility, and especially the appeal of his message about a new deal with Canada," has clearly struck a chord with voters.

The federalist side remains confident it will score a narrow victory on Monday. Most undecided voters are expected to opt for the less risky course of a No vote. Others may change their minds at the last minute as they ponder the costs of a break-up. But even the staunchest federalists acknowledge the margin of victory will be smaller than they expected a few weeks ago.

Mr Bouchard, 57, has his roots in the isolated Lac St Jean region of eastern Quebec, where separatist sentiment and labour militancy were famed early this century by the dominance of English-speaking businesses such as Alcan Aluminium and Price, a forest products group. These

companies' managers were typically English-speaking, mostly from far-off Montreal or the UK. Local francophones were left with the blue-collar jobs.

Most large businesses in Quebec are now run by French-Canadians, but the nationalist movement still strikes a chord by reminding Québécois how they have overcome their subservience.

Mr Bouchard, a truck driver's son and a lawyer by training, entered federal politics in the mid-1980s as one of several Quebec nationalists wooed to Ottawa by former Prime Minister Brian Mulroney. He served as Canada's ambassador in Paris and held a number of cabinet posts.

But Mr Bouchard stormed out of the Mulroney government in 1990 in protest against a report on constitutional reform written by one of his colleagues, Mr Jean Charest. According to Mr Charest, who is now leader of the Progressive Conservative party, Mr Bouchard has refused to speak to him since.

Mr Bouchard went on to form the Bloc Québécois to give the separatist cause a voice in Ottawa. The BQ's concentrated power base in Quebec enabled it to gain enough seats in the 1993 election to form the official opposition.

Friends and acquaintances have difficulty characterising Mr Bouchard. His moods vary from outgoing bonhomie to humourless intensity. Despite his nationalist ardour, his wife is American.

According to Mr Jean Lesieur, a co-founder of the BQ and now a Montreal radio talk-show host, Mr Bouchard has "a great sense of indignation and a good measure of competence. He's honest but not always predictable."

So strong is Mr Bouchard's aura of invincibility that his supporters have nicknamed him St Lucien. His stature as a secular saint was heightened last winter when doctors amputated his left leg to stanch the spread of a deadly flesh-eating virus.

Having given the separatist campaign encouragement, Mr Bouchard is unlikely to be blamed if the No side ends up winning a narrow victory next Monday. Political pundits expect he would take over, sooner or later, from Mr Parizeau as Quebec's premier.

Ironically, Mr Bouchard could face a far tougher challenge if the separatists are victorious. He has been named to lead Quebec's negotiations for a new political and economic deal with Canada. But he could not expect much co-operation from the federal government in Ottawa, the other nine provinces, financial markets or Quebec's own business community.

Taking up the separatist leader's magic metaphor, Mr Jean Charest, Canada's prime minister, warned in Quebec City last week: "If [Mr Bouchard] thinks he'll sit down after a Yes vote and just negotiate a partnership with Canada, he's living in a world of fantasy." English Canada's attitude towards Quebec in particular would undoubtedly harden still further.

See World Stock Markets



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PHILIPS

NEWS: UK

Three questioned over blocked funds fraud allegation

By William Lewis and Ian Rodger

Fraud Squad officers in the UK have placed three people on police bail in relation to an international fraud involving approximately \$200m (£125m).

The three, arrested last Friday, are thought to have been involved in brokering so-called "blocked funds letters".

Documents were recovered

from three addresses in London and the south-east.

UK fraud officers and the Federal Bureau of Investigation and Interpol are investigating Capital Support Corporation, based in the US. They are also working with Swiss fraud authorities investigating FS Financial Support of Geneva, Switzerland - a company related to Capital Support.

Mr Wayne Richard of FS

Financial Support SA was arrested in Geneva on June 30 and is being held in jail while investigations into alleged fraud continue.

Prosecutors allege that blocked funds letters purportedly issued by well-known European banks were used to defraud a number of investors of amounts between \$300,000 and \$350,000.

The aggregate size of the

alleged fraud is thought to be approximately \$200m. At least 60 individuals have been involved in selling the blocked funds letters around the world.

Depositors, attracted by the prospect of extraordinarily high rates of interest, were invited to place funds with the scheme's backers after being shown an alleged bank document - a blocked funds letter -

that appeared to show substantial collateral. A typical blocked funds letter, to support a trading account, confirmed with "full bank authority" that certain funds were available and that they were clean and of non-criminal origin.

As part of the alleged fraud, depositors were told that an approach had been made to a bank by individuals who were said to represent parties to a

transaction. It was claimed the bank provided a letter confirming the existence of the funds and the scheme operator then used this bogus letter as a basis for his future dealings with other investors.

Mr Herb Wiseman, founder of Capital Support Corporation, said in August: "I absolutely deny any impropriety. They are making us out unfairly to be a bunch of hoodlums."

UK NEWS DIGEST

Supermarkets line up in battle over discounts

Four of the UK's largest manufacturers of over-the-counter medicines have warned Asda, the supermarket group, that they will take out injunctions against it unless it undertakes not to discount any of its products covered by price maintenance. The news came as J. Sainsbury, the UK's biggest supermarket group, cut prices by at least 20 per cent across its range of more than 100 vitamin and mineral supplements, including both own-label goods and manufacturers' branded products.

The move by Sainsbury follows Asda's decision last week to reduce the prices of 80 vitamins, minerals and supplements in a challenge to the manufacturers' rights to set prices on non-prescription medicines - only days before the Office of Fair Trading launched an investigation into the issue.

The brands involved in Asda's promotion are mainly Roche's Sanatogen, and Hanson's Seven Seas. But Procter & Gamble, SmithKline Beecham, Warner Wellcome, and Reckitt & Colman have written to the retailer through solicitors, seeking undertakings that Asda will not cut prices on their price-maintained products.

Neil Buckley

Brain disease fears for farmers

Government health investigators believe that a fourth UK cattle farmer is dying of Creutzfeldt-Jacob disease. If the case, believed to involve a beef farmer in North Wales - is confirmed, it will add to fears that the disease can be transmitted from animals to people under agricultural conditions. Three dairy farmers have died from Creutzfeldt-Jacob, a degenerative brain disease, since the beginning of 1993. A conclusive diagnosis of Creutzfeldt-Jacob cannot be made until the patient has died and postmortem tests carried out.

A fourth case among farmers handling cattle would be an unlikely coincidence, because Creutzfeldt-Jacob is very rare.

Citine Cookson, Science Editor

Rates fall squeezes insurers

Advertising spending on motor and household insurance has increased substantially this year - at a time when premium rates are falling. Insurers are competing fiercely in an overcrowded market, which has been transformed by the rapid growth of telephone-based insurance companies such as Royal Bank of Scotland's Direct Line. Mr Roman Chodzy, insurance analyst at Merrill Lynch, said: "When one insurer is spending to build up brand awareness, other insurers are forced to spend in to maintain market share and to protect their brand image." Quarterly spending by motor insurers is running at more than three times the level reported at the end of 1991, although part of the increase is due to higher advertising rates. One consequence of falling premium rates and rising advertising spending is that with premium rates falling, insurers' expenses are set to increase as a percentage of their income.

Ralph Atkins, Insurance Correspondent

Children quiz BA chief: Sir Colin Marshall, chairman of British Airways, defended the company's record on noise levels from aircraft at the first international children's conference on the environment. "We take the environment very seriously and have a full-time officer looking at what BA can do to make it even more environment friendly," he told delegates at the BA-sponsored conference held in Eastbourne on the south coast.

PA News

Joint venture set up to rival British Gas

By David Wighton

Seaboard, the south-east of England electricity distributor, set its sights yesterday on becoming the biggest rival to British Gas in the domestic market through a joint venture with Amoco, the US oil and gas group.

Announcing the venture, the companies said they were aiming for 10 per cent of British Gas's £6bn (\$9bn) a year domestic consumer monopoly by 2003.

Although the domestic market will not be fully opened to competition until April 1998, the new company will take part in the first trial allowing UK customers to choose between competing suppliers.

The scheme, involving 500,000 consumers in the south west is due to start on April 1 next year.

A second trial in 1997 will cover an area of southern England which includes half of Seaboard's 2m electricity customers. Seaboard predicted that gas prices to the consumer would fall by at least 10 per

cent in real terms over the next five years.

Mr Stephen Gutteridge, managing director of Seaboard's supply business, claimed the 50/50 joint venture was a "unique partnership" committed to building a nationwide gas business.

"It is the first major competitor to declare its hand in the domestic gas business," he said.

But City analysts pointed out that many other electricity companies had done similar deals with gas producers and some were sceptical about Seaboard's market share target.

"If you add up all the net entrants targets you get a figure several times the current market size," said one analyst.

Most of the other regional electricity companies are already supplying gas to industrial customers and several have joint ventures with oil and gas companies including British Petroleum and Total of France.

The only other regional electricity company to have stated that it will compete in the domestic market nationwide is Eastern Group, the distributor now owned by Hanson, the industrial conglomerate.

The liberalisation of the industrial market has led to fierce competition among dozens of suppliers, some of which are wary of further expansion.

Seaboard's industrial gas business, a joint venture with Utilicorp of the US called Southern Gas, made reduced profits of £800,000 on sales of £29.7m last year.

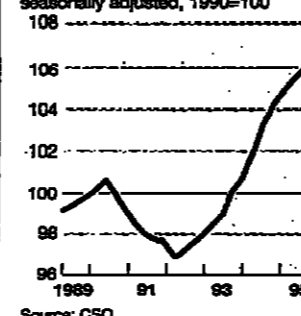
Seaboard has paid an undisclosed sum for Utilicorp's 25 per cent share in Southern Gas which will be folded into the, as yet unnamed, new venture with Amoco.

Amoco, the world's fourth largest private natural gas producer, has been looking to increase its direct sales to consumers.

Mr Mike Ambrose, managing director of Amoco Western Europe Gas, said: "The joint venture will be our principal UK outlet for substantial quantities of competitively priced gas from our own reserves over the next 10-15 years."

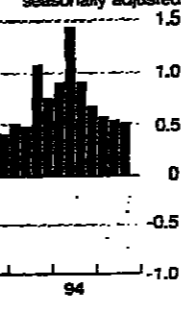
GDP: steady growth

At constant factor prices seasonally adjusted, 1990=100



Source: CSO

Quarterly % change seasonally adjusted



Growth bolsters tax cut hopes

By Graham Bowley, Economics Staff

The expansion of the service sector continued to underpin the steady growth of the UK economy in the third quarter of the year, official figures showed yesterday.

The Central Statistical Office said gross domestic product in the three months to September was 0.5 per cent higher than in the previous three months. This was the same rate of expansion as in the previous quarter and the fourteenth successive quarter of growth.

The annual rate however, slipped back in the year to the third quarter to 2.4 per cent from 2.8 per cent in the year to the previous quarter.

This was the slowest annual rate of growth for more than two years and in line with rates which have been sustainable in the past without pushing up inflation.

While the manufacturing sector continued to display signs of weakness, the service sector remained robust, not-

withstanding recent weakness in retail sales.

The CSO said service sector output grew by 0.7 per cent between the second and third quarters and was 3.2 per cent higher in the latest quarter compared with the same quarter a year earlier.

"The figures suggest a continuation of the divergent performance of the manufacturing and service sectors," said Mr Alex Garrard, UK economist at UBS.

The Treasury welcomed the latest figures. Officials said they confirmed that economic growth was now running at a sustainable rate.

The rise was in line with City expectations and most economists said it made tax cuts increasingly more likely in the chancellor of the exchequer's budget to be announced on November 28.

"With annualised growth now below the trend growth rate [of around 2.5 per cent], the chancellor may see more room for tax cuts," said Mr Garrard.

Rules on cable market set to bite

By Raymond Snoddy in London

The government will not tolerate anti-competitive behaviour in the developing communications market, Mr Ian Taylor, trade and industry minister, warned yesterday.

Mr Taylor told a cable conference in London that the government was determined to get right the regulatory framework on access to programming and conditional access - the systems enabling broadcasters to charge for subscription television.

"Anti-competitive or restrictive behaviour will elicit a firm response from the authorities," Mr Taylor said.

The government accepted that companies which risked their capital and worked hard were entitled to a commensurate return.

But Mr Taylor pointed out that as much harm would be done by ignoring de facto monopolies as by restoring any legal monopolies.

"And past forbearance by government does not mean we will overlook any anti-competitive features of the market in future," Mr Taylor told the conference.

Later he explained he wanted to see competition authorities implementing a regulatory regime which bites.

Mr Taylor did not rule out further legislation if it proved necessary. "We will watch as the market develops," he said.

Greenpeace urges oil platform strategy

By Robert Corzine

Greenpeace, the environmental pressure group, says as much as £630m (\$976m) could be saved by the government and oil industry if the UK adopted a co-ordinated international approach to the removal of most North Sea oil and gas platforms.

It estimates that savings are possible even under the "clean seas" policy advocated by the group which calls for the complete removal to land of steel platforms.

The findings are contained in a new study published today by the group, which earlier this year succeeded in forcing

Shell to abandon a government-approved plan to sink the Brent Spar oil storage installation in the Atlantic Ocean.

The government, which is set to pay for as much as 70 per cent of individual abandonment, contends that a "clean seas" policy would prove to be too expensive relative to the environmental benefits it might produce.

Greenpeace accepts that removing all steel structures entirely would add £450m to the cost of abandoning steel platforms, which it estimates at £5.15bn over 30 years. The offshore industry has estimated £1.5bn will be spent over the next 10 years. But Green-

peace says co-ordinating the contracts for removing installations and recycling high grade steel would more than offset the additional costs of complete removal.

A recent government consultation paper on abandonment outlined a flexible, case-by-case approach. This means that the lower sections of some platforms could be left in place, while others might be towed to deepwater sites and dumped.

Mr Paul Brindley, an environmental consultant and the author of the Greenpeace report, agrees that a case-by-case policy is needed to select the correct technical approach to the abandonment of individ-

ual platforms. But he says savings can be made by co-ordinating the timing of individual disposals and by issuing contracts for more than one disposal at a time. "Only the government has the full view of what is going on in the North Sea," he says, "because only they have detailed knowledge of all the individual abandonment plans."

The UK Offshore Operators Association, the trade body which represents North Sea oil and gas producers, said the industry was studying ways in which it could co-operate in abandonment. But he doubted whether more than "one or two might coincide".

Celebrating the UN's 50th Anniversary? Don't Forget the Missing Piece!



Ever had the feeling something's missing? The United Nations of today was designed 50 years ago to reflect the diversity of all nations and promote peace. Yet, at the world body's 50th anniversary celebration this year in San Francisco, one of UN's founding members, the Republic of China, is being kept on the sidelines.

Even though one missing piece might not seem to affect the overall picture that much, that piece still represents the 21 million people of the Republic of China on Taiwan, more than the population of any of nearly two-thirds of the UN membership. Until ROC citizens are given a voice at the UN, the world body can hardly be truly universal.

The people of Taiwan have much to offer the world if it will only let them give: experience in accomplishing remarkable economic growth, and peacefully achieving democracy to name just a couple. As we savor this milestone for the UN and look to the future, doesn't it make a lot of sense to complete the picture now?

Return the Republic of China on Taiwan to the UN!

TODAY'S TAIWAN
REPUBLIC OF CHINA

The Financial Times plans to publish a survey on Northern Ireland - The New Business Opportunity on Wednesday, November 29.

The FT is circulated in 160 countries worldwide, with a readership in excess of one million people.

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Data Sources
EPRS 1993
BMRB 1993

FT Surveys

Prices for electricity generated by the			
participating in the electricity pooling and			
scheme (pence per kWh) for the week ending 23/10/95			
Period	Price	Price	Price
1/2 hour	1/2 hour	1/2 hour	1/2 hour
0000	8.82	8.82	8.82
0100	8.84	8.84	8.84
0200	8.84	8.84	8.84
0300	8.84	8.84	8.84
0400	8.84	8.84	8.84
0500	8.84	8.84	8.84
0600	8.84	8.84	8.84
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2400	8.84	8.84	8.84

LUXEMBOURG

Mighty micro-state flexes its muscles

As European integration moves ahead, the state intends to retain its influence, says Lionel Barber

Luxembourg is the mighty micro-state at the heart of Europe. A founder member of the European Union, it has exploited deftly the opportunities offered by open borders, free trade, and steady progress toward deeper political and economic integration.

The Grand Duchy's stability and prosperity is a source of admiration and occasional envy among its neighbours, so too, is the country's knack of turning one good idea into reality every 30 years, from modern steel-making, to private banking and the latest successful efforts to develop a cross-border life assurance industry.

Luxembourg's drive to diversify is moving ahead fast with the government-encouraged programme to build up a multi-media sector, partly to relieve some of the country's dependence on the financial sector which contributes LFr50bn (\$1.063bn) to the country's economy, roughly 35 per cent of gross domestic product.

Yet there are clouds drifting in from the Ardennes. The profitable banking industry is starting to complain about the high taxes and social costs needed to underpin Luxembourg's welfare state.

Unemployment figures have started to creep up. At 2.7 per cent, the jobless rate remains the lowest in the EU but it is still close to a post-second world war record. Traces of long-term unemployment are emerging for the first time in memory.

On the political front, the Grand Duchy is heading into next year's inter-governmental conference (IGC) with a degree of apprehension.

its power-sharing and constitutional rules ahead of the planned integration of central and eastern Europe around the turn of the century, there will be growing pressure to reduce the influence of smaller members, particularly mini-states such as Luxembourg.

Most observers believe that the Grand Duchy is fortunate to have a young, energetic and intelligent man in charge during this tricky period of transition. Jean-Claude Juncker took



Juncker determined to keep Luxembourg in the first division

over as prime minister last year aged 39, succeeding Jacques Santer who moved to Brussels as the new president of the European Commission to succeed Jacques Delors.

"Santer sent this country to sleep for 10 years, he was the man who could build a consensus," says an official who knows both prime ministers well. Another colleague agrees. "Santer concentrated on the issues that were most important, and never bothered much about the rest. He took the helicopter view."

By contrast, Mr Juncker comes across as a man in a hurry. As finance minister, a portfolio which he has

retained, he launched reforms of health insurance and in 1993 completed an overhaul of taxation, reducing the burden on middle-income and small to medium-sized companies, while keeping a tight grip on spending.

His latest target is civil service reform, a tough but necessary measure which has already brought him into conflict with the powerful public sector unions.

One of seven children of a steel-worker and trade union militant, Mr Juncker is a Christian Democrat with a strong sense of religion and a commitment to defending Europe's social model. Inside the EU club, he has a wealth of contacts and commands respect. Chancellor Helmut Kohl, a fellow Christian Democrat, viewing Mr Juncker as something of a protégé, refers to him affectionately as "Junior".

If Mr Juncker has a fault, it is that he is too much of a one-man show. But the young prime minister is determined to keep Luxembourg in the first division of EU member states, particularly in the run-up to the planned monetary union in 1999.

He lists his objectives as stable growth, balanced public finances, high rates of employment and price stability. The fact that Luxembourg is only one of three countries (the others are Germany and Ireland) which are judged by their peers to have met the Maastricht treaty's convergence criteria for European monetary union suggests that he and his country are on track.

Lucien Thiel, general manager of the Luxembourg Bankers Association, agrees that the figures look impressive. But he points to conflicting pressures facing the government as it seeks to prune public spending and reduce the tax burden in response to pressure from the corporate sector.

On the one hand, Mr Juncker is battling to rein in the ben-



efits of the civil service while not alienating one of the most important political constituencies. On the other, if he bows to the financial sector and lowers corporate taxes, he is bound to face calls to follow tradition and reduce the tax burden on private households by a corresponding amount.

"Juncker is showing a lot of courage tackling the problems today rather than storing up trouble for later," says a civil servant. "But if he gets it wrong, he could get into trouble."

A similar battle on pay and conditions is unfolding in the financial sector itself. Mr Thiel claims that union demands

combining a general pay increase, an automatic rise for seniority and a reduction in the working week from 40 to 35 hours, would produce a 40 per cent increase in costs over the next two years. "It's absolutely crazy," he says. "If there's to be an increase, it should only be for performance."

The unions dispute Mr Thiel's figures, but the outcome of the banking sector's pay round - which follows the expiry of an earlier three-year deal - will offer clues as to how serious Luxembourg is about keeping down its costs.

Long-time residents such as Fleming Fund Management have no doubt that the present

system of indexation has no place in a highly-developed service economy such as that of Luxembourg. "To have one's hands tied at salary review time is madness," says Tony Daggart, Fleming Fund Management's managing director.

The question is whether fear of unemployment will affect the negotiating climate. For although Luxembourg's jobless rate is low by EU standards, Mr Juncker's worst nightmare is that the country might start importing unemployment from outside its borders.

The Luxembourg economy draws heavily on skilled labour commuting in and out of the country, but as Mr Thiel points

KEY FACTS

Official title: The Grand Duchy of Luxembourg
Head of state: Grand Duke Jean of Luxembourg
Capital: Luxembourg-Ville
Area: 2,586 sq km
Population: 395,200 (1993)

Economic indicators	1990	1991	1992	1993	1994
GDP at market prices (Lfr bn)	352.8	377.5	406.3	432.6	455.3
Real GDP growth (%)	3.2	3.1	1.8	0.8	3.3
Consumer price inflation (%)	3.7	3.1	3.2	3.8	2.2
Population '000 (mid-year)	380	385	390	390	394
Exports fob bn	6.3	6.3	6.5	5.8	8.4
Imports fob bn	7.6	8.0	8.2	7.5	8.0
Exchange rate (ev) Bfr/Lfr	33.4	34.2	32.2	34.6	33.5

Origin of gross domestic product 1992	% of total
Agriculture, viticulture and fishing	1.7
Manufacturing and mining	20.1
Energy and water	1.7
Construction	8.8
Services	67.6
GDP at factor prices	100.0

Components of gross domestic product 1994	% of total
Private consumption	53.3
Government consumption	13.5
Fixed investment	24.2
Stockbuilding	1.8
Exports of goods and services	88.5
Imports of goods and services	80.6
GDP at market prices	100.0

Forecast summary (% change on previous year)	1993(a)	1994(a)	1995(b)	1996(b)
Real GDP	0.8	3.3	3.3	3.0
Industrial output(c)	-3.1	8.1	5.0	4.0
Crude steel production	7.0	-6.6	-10.0	10.0
Consumer prices	3.6	2.2	2.2	2.5

(a) Actual (b) EU forecasts (c) Excluding steel
Source: EU Country Report 3rd quarter 1995, World of Information

out, freedom of movement could be double-edged. "There are 100,000 people out of work in the area known as the Big Region around Luxembourg, and we have permeable borders. This is a real problem," he says.

This is one reason why Mr Juncker is keen to ensure that social and employment policy is discussed properly at next year's IGC, particularly ahead of the planned move to monetary union.

To this end, Mr Juncker is taking advantage of the fresh spirit of co-operation with Belgium and the Netherlands which has developed under the leadership of Jean-Luc

Dehaene, the Belgian premier. The Benelux trio recognise the risks of a big power carve-up between France, Germany and the UK in 1996. Their calculation is that it is better to move in concert than go solo in Europe. Luxembourg's own strengths should not be underestimated.

From the 1970 Werner plan on monetary union, to the 1985 single European Act, as well as large chunks of the Maastricht treaty, a handful of resourceful political minds stamped Luxembourg's blend of consensus on the process of European integration. There is no reason to suspect that it will be any different the next time around.

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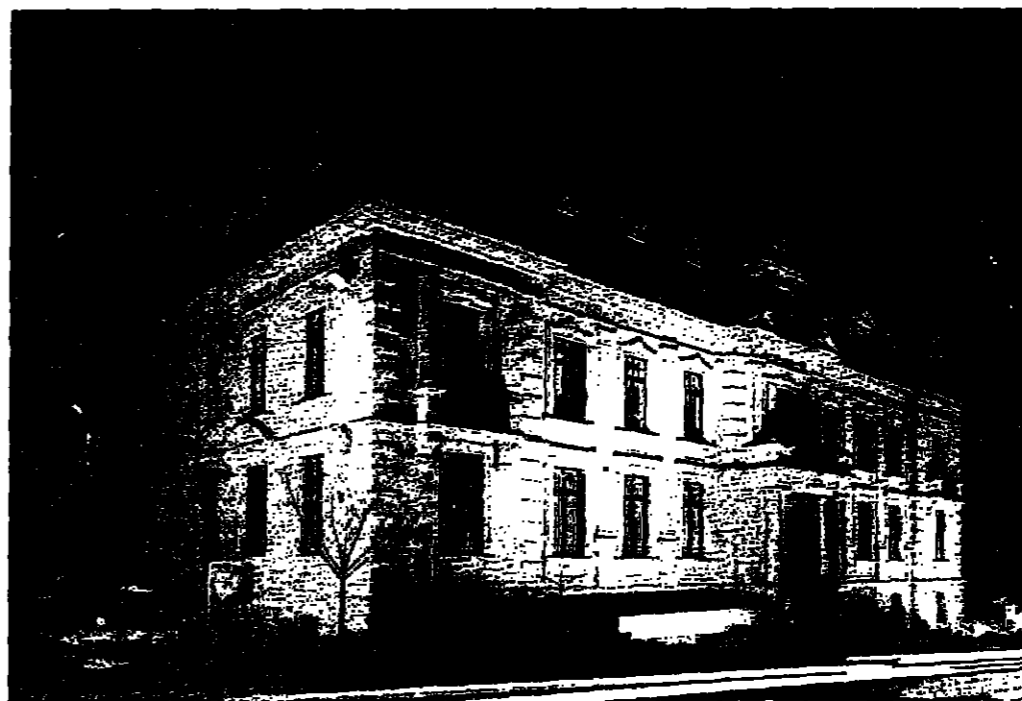
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2 LUXEMBOURG

■ **Economy:** by Simon Gray

Rankings still flattering

In spite of a rise in the number of unemployed, the overall picture remains rosy

Robert Goebbels, Luxembourg's Minister of Economic Affairs, is not a man to encourage complacency. Speaking at the opening of October 7 of the Grand Duchy's autumn trade fair, a traditional occasion for finger-wagging economic homilies, he cautioned his audience against being carried away by Luxembourg's lofty position in national wealth league tables.

The most recent World Bank rankings placed Luxembourg second in gross national product per head, behind Switzerland. With purchasing power taken into account, Luxembourg is first - ahead of the US. Even in a new calculation taking into account natural resources, the Grand Duchy is classed third after Canada and Australia.

Mr Goebbels advised against taking these "flattering" rankings too seriously. For one thing, he noted, Luxembourg ranked only twelfth among the richest regions of Europe, trailing behind several areas of Germany and much of northern Italy.

The GNP per head figures were in any case skewed, he argued, by the substantial reliance of the Luxembourg economy on non-residents.

"Our GDP is the product not only of the labour of Luxembourgers and numerous non-Luxembourgish residents, but also cross-border commuters, who represent more than a quarter of the workforce," Mr Goebbels said. "The latter are not counted when it comes to dividing GDP by the resident population, which takes a little of the shine off Luxembourg's statistical richness."

It is a matter of concern to many Luxembourgers that foreigners, resident or otherwise, make up more than half the national workforce, and around two-thirds of that in the private sector. But given the pace at which the economy has been creating jobs over the past decade, there seems no alternative.

By the end of this year, Goebbels' ministry reckons, domestic employment will have grown by 5,600 to 213,600, of whom almost 60,000 will be cross-border commuters. Since 1991, total employment has grown by 18,600 but residents have contributed just 1,400 new members to the workforce.

This helps explain why throughout this sustained period of job creation - at least 2 per cent every year since the mid-1980s - unemployment has crept up to some 4,600. At 2.7 per cent of the national labour force, the jobless rate is the lowest in the EU but still close to a post-war record.

Moreover, the phenomenon of long-term unemployment is starting to be felt in Luxembourg for the first time in memory. The Employment Administration describes a third of those on its rolls as "difficult to place".

Overall, however, the economic picture is rosy. The closest Luxembourg came to recession earlier in the decade was in 1993, when domestic consumption fell by nearly 1 per cent; even then GDP grew by at least 1.7 per cent.

Economic growth is considerably more robust now. The rate for last year has been revised by the Economic Affairs Ministry to as high as 4.1 per cent, and the economy is forecast to grow between 3.0 and 3.3 per cent, on a par with the EU average, this year and next. (The vagueness of the figures is because Luxembourg publishes two sets of accounts for the national economy, believing the European standardised SEC system fails to give adequate weight to the impact of Luxembourg's banking sector on its domestic economy.)

Inflation, which surged in 1993 to 3.6 per cent, has since fallen back to a forecast 2.4 per cent this year, assisted by the anti-inflation efforts of two of the Grand Duchy's largest trading partners, France and Germany.

Last year Luxembourg's industrial sector enjoyed growth of about 3.5 per cent, even with its largest component, the steel industry, still suffering from weak demand. Since then the outlook has changed for Arbed, today the

world's sixth-largest steel manufacturer, with a return to profit for the multinational group in the first half of this year.

Other indicators point to steady if not spectacular growth. Consumer spending remains depressed by a slump in the car market, which accounts for 11 per cent of the commercial sector, and the construction industry remains subdued after a surge in growth in the late 1980s. The picture looks healthy for the financial sector, where the banks set new profit records last year (albeit mostly thanks to the drawing down of provisions) while the newer cross-border life assurance market continued its rapid growth.

A counterweight to financial services lies in the information and media sector, where Luxembourg is home to two successful and profitable groups - pan-European broadcaster CLT and Astra satellite operator SES. The government is hoping for a third winner in Europe Online, a supplier of mass-market computer services which start operation toward the end of this year.

If there is a cloud on the economic horizon, it is continuing fears that with its high salaries, generous social benefits and strict employee protection rules, Luxembourg could start to price itself out of markets. These are strong in the financial sector, where personnel costs grew by some 15 per cent last year: in the past decade staff costs have risen from an average 16.2 per cent of banks' gross results to 24.5 per cent.

This has reached the point where insiders fear business is already being driven away. Explaining the recent decision to close the Bank of Boston's Luxembourg subsidiary, Jean Lefranc, the managing director, said: "We were not losing money but operating costs, and especially personnel costs, were becoming heavier and heavier."

Those who have called for a more flexible employment structure are taking heart, though, from the decision by Prime Minister Jean-Claude Juncker, wearing his employment minister's hat, to allow Goodyear to introduce Sunday

working at its tyre production centre - even though 66 per cent of employees voted in a referendum prescribed by law against the plan.

Goodyear won the day by dangling the carrot of a \$60m investment programme and 100 new jobs at its Colmar-Berg site (the tyre manufacturer is Luxembourg's second-largest private sector employer) if seven-day production was authorised.

But it was something of a turnaround for Mr Juncker, who is known as a partisan of employee rights and who in 1988 was the author of legislation which intensified restrictions on Sunday working.

■ **Investment funds:** by Lionel Barber

Supremacy could be challenged

Other centres look ready to compete with Europe's financial supermarket

Luxembourg is Europe's financial supermarket-in-waiting. Multilingual and multi-skilled, the Grand Duchy is rapidly becoming the distribution centre for leading international fund managers, as well as a proven location for private banking, interbank loans, and Euro-market activities.

In the past decade, Luxembourg has become the fourth largest centre for investment funds in the world; in Europe it ranks second only to France. As the market becomes more sophisticated, fund managers are launching a dazzling array of products to pull in cross-border customers.

But there are clouds on the horizon. Low-tax Dublin has served notice that it intends to compete for the funds business. Germany is still unhappy about the seepage of D-Mark investors to Luxembourg, a withholding tax haven. The government in Belgium is twofold about the Grand Duchy targeting Belgian savers through its burgeoning life assurance business.

Closer to home, the invest-

In the past decade Goodyear's workforce in the Grand Duchy has fallen from 4,500 to 3,490.

Against this background, he explained his decision by saying: "Without Sunday working, the rationalisation process would have continued and we would have lost up to 400 jobs... Those who will have to work are not happy at my decision, I'm sure. Their quality of life will suffer, but I had to weigh the factors for and against."

The premier insists his decision will not set a precedent that other companies can follow. But the conclusion being drawn is that where employee rights run across other economic needs, especially creating or preserving jobs, it is the latter which will take precedence. Not before time, businessmen say.



A healthy picture: banks set new profit records last year

The European investment fund market: a five-year comparison						
At December 31						
Country	1994	1993	1992	1991	1990	Average annual growth 90/94 %
Austria	19,155	18,328	12,485	11,276	10,609	15.9
Belgium	15,434	13,908	7,424	4,534	3,325	46.8
Denmark	4,452	3,948	2,639	2,788	2,633	14.0
Finland	837	536	100	68	65	89.4
France	406,500	433,882	371,480	331,100	278,367	9.8
Germany	92,068	70,480	58,101	59,227	51,567	15.4
Greece	5,103	3,105	944	733	688	65.0
Ireland	6,569	4,705	4,807	5,536	5,109	5.8
Italy	65,425	57,687	34,162	36,536	3,065	114.9
Luxembourg	231,376	222,221	151,142	87,488	62,031	39.0
Netherlands	43,000	40,921	28,800	15,300	17,825	24.6
Norway	4,186	4,234	1,748	1,852	1,686	25.5
Portugal	10,521	6,355	6,591	4,785	3,705	20.8
Spain	70,129	64,595	45,385	30,235	8,867	67.2
Sweden	15,482	22,280	14,983	13,130	15,644	1.3
Switzerland	31,770	30,547	16,200	15,072	14,287	22.1
UK	108,881	120,183	75,625	77,961	65,250	13.7
Total	1,131,577	1,118,008	832,816	687,622	545,214	20.0

Source: European Federation of Investment Funds and Companies

ment fund sector, which contributes about 10 per cent of the national budget through capital duties and tax receipts from banks and employees, is gripping about Luxembourg's high tax, high salary base.

Rico Barandun, managing director of Credit Suisse, Luxembourg, is a leading light in the Luxembourg banking association's campaign for a reduction of the 0.06 capital duty on investment funds, having secured a reduction to 0.03 per cent for money market and fund funds.

His own group solved part of the tax problem by creating a new vehicle, Credis, to administer the group's SFPR40n funds and book the fees. Credit Suisse, Luxembourg, takes the custodian's fee only, "but we will save tens of millions of Swiss francs this year", he says.

Despite his tax complaints, Mr Barandun cites his association's creed: "The banker in Luxembourg has the linguistic ability of a Luxembourg, the internationalism of an American, the hospitality of a Scandinavian, the diplomacy of an Englishman, the efficiency of a Japanese, the culture of a Frenchman, the precision of a German, the reliability of a Swiss, and the charm of an Italian."

This multilingual, multicultural approach is evident among the 820-odd banks and investment houses which are shoe-horned into Luxembourg city.

Businesses such as Fidelity, which has \$3.7bn under management, boast as many as 12 different languages in-house, each vital for servicing clients around Europe.

Wichard von Gerlach, Fidelity's tall young marketing director, says Germany is the big prize. The German market is "segmenting" as consumers look beyond the traditional

clearing and savings banks for reliable, high-yield investment opportunities, in particular to fund their pension contributions.

With almost 20 per cent of German salaries going toward pensions, Mr von Gerlach suggests that a "retirement crisis" is building in Germany and the rest of Europe. Touting the credentials of investment funds, he declares: "People cannot rely on government guarantees alone."

Tony Daggart, managing director of Fleming Fund Management (Luxembourg) agrees. He points to the likely rapid rise in the proportion of retired people in France, Germany and Italy in the next 30 to 35 years. "We have only barely scratched the surface of the markets we are involved in."

Flemings, which set up office in Luxembourg in 1988, likes to lay stress on its global expertise, partly because of the close links it has with Jardine Fleming in the Far East, but also through its interest in less researched, if higher risk, emerging markets in central and eastern Europe.

"You have a highly educated, 99 per cent literate population, with very cheap wage rates," he says. "A lot of these countries are re-emerging markets."

But Mr Daggart concedes that the retail market remains soggy after last year's difficulties. Flemings is tending to offer more lower risk products.

German investors, for example, are being courted with offers of 130 per cent of their initial investment after five years, or 60 per cent of the rise in the Dax share index.

Banque Indosuez Luxembourg has put a lot of effort into harnessing computer technology to produce more efficient, more flexible means of managing and administering several investment funds at

minimal advice and administration fees: "no load" (no initial charge) versus "low load" which has slightly higher management fees.

Roland Simon, managing director of Deutsche Bank investment management, says price-conscious younger people are moving more into the long-term investment market. Equities are competing with more traditional life insurance products as potential for capital growth.

The bank's building - a futuristic steel structure with a towering statue of a dinosaur in the atrium - is geared to evoke the new age.

Despite the difficulties of dealing with the switchback inflow and outflow of D-Mark in the Grand Duchy in the past five years (the bank moved from DM15bn in 1990 to DM42bn in 1993, to DM28.5bn in 1995), Mr Simon says his group can offer products which are not permitted or are restricted in Germany, particularly on "guaranteed money back" deals and the use of over-the-counter derivatives.

With new independent financial advisers moving into the market, the big banks are likely to be forced to engage in more partnerships in order to contain the costs of distribution such as Indosuez's link up with Générale de Banque of Belgium.

Whatever the untapped potential of the investment market, competition seems sure to intensify - a message which is as relevant for the banks as for the Grand Duchy itself.

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■ **Arbed:** by Caroline Southey

Acquisitions bolster profits

Interests on foreign soil are now contributing to the giant steel company's strength

A strategic acquisition by Arbed, the jewel in the Grand Duchy's industrial crown, has projected the giant steel company into the top ranks of Europe's biggest players and breathed new life into its core activities.

Arbed still towers over Luxembourg's industrial landscape contributing nearly one third of the country's industrial output and providing employment for almost 10,000 people.

However, the group's financial strength now emanates as much from acquired steel interests on foreign soil as it does from activities inside the Grand Duchy.

"The company has pursued a clever political strategy and has managed to reposition itself into being both a global and a major European player," said a London-based analyst.

The strategic move that has brought about the biggest

transformation in the group's fortunes was the acquisition last year, through its subsidiary Sidmar, of the German steel company Kloeckner Stahl, renamed Stahlwerke Bremen.

The investment stretches Arbed's activities further across Europe - in Belgium, France, Luxembourg and finally Germany - and places the group among Europe's four largest steel companies.

In 1994 Arbed's total crude steel production stood at 11.9m tonnes, just ahead of Thyssen's 10.7m and behind Usinor's 18.5m. Riva's 16.1m and British Steel's 12.9m.

"It was a great timing success picking up Bremen just before the upturn in the market," the analyst said.

A glance at the group's mid-term results, which include consolidated Bremen figures for the first time, show the scale of the German company's impact.

The group's net profit stood at LFr4.6bn after a loss of LFr756m in the first half of 1994. Cash flow reached LFr11.3bn compared with

LFr3bn last year.

The production of flat products, which accounted for more than half of Arbed's operating profits, rose by 86 per cent from 1.8m tonnes to 3.5m. Of this the Bremen plant contributed 1.6m tonnes and the Sidmar plant 1.9m.

The increase in consolidated net sales from LFr10.6bn to

Arbed is replacing the traditional steelmaking process for long products with electric arc furnaces

LFr13.5bn was mainly due to the 73 per cent rise in flat products sales from LFr3.2bn to LFr5.5bn. Stainless steel also showed a strong performance increasing by 74 per cent from LFr10.4bn to LFr18.2bn.

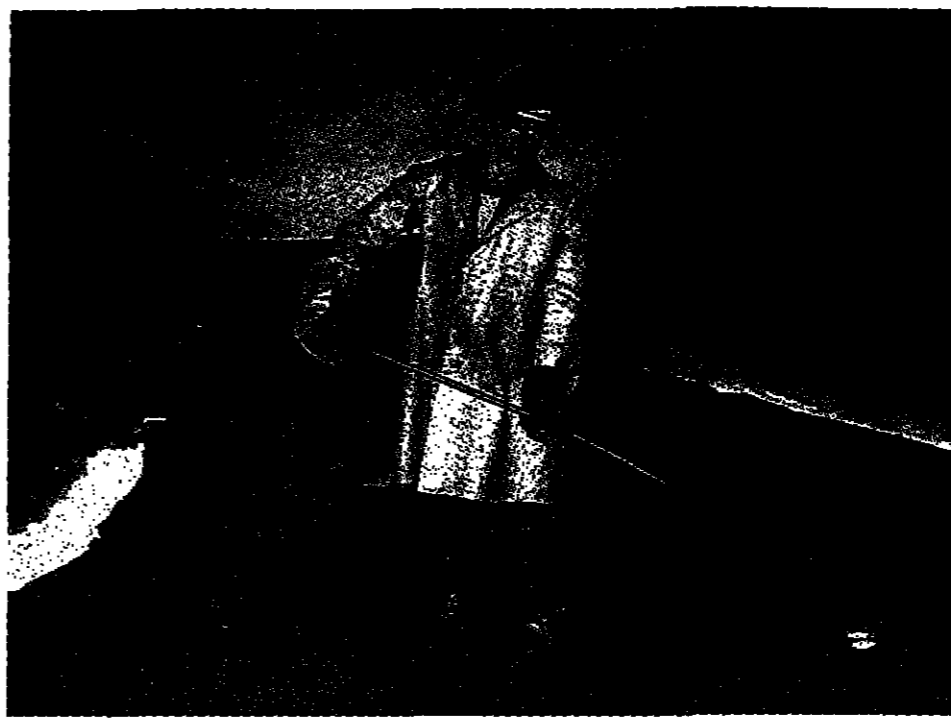
Sales of long products dipped from LFr28.8bn to LFr26.7bn in the same period.

The Bremen stake has not only revitalised the group's profitability and injected new energy into the flat products sector. It has also given Arbed the financial flexibility to complete the changes in technology which it hopes will lead to a turnaround in the long products sector.

Arbed is in the process of phasing out the traditional steelmaking process for long products and replacing it with electric arc furnaces. The changes, which the company says will be completed by 1997, will enable Arbed in the longer term to save up to DM100 for every tonne produced.

Electric arc furnaces will allow Arbed to dispense with iron ore and enable it to use scrap metal which is significantly cheaper.

"The transport costs will be much less, as it is cheaper to import scrap from Germany than iron ore from Sweden. There is a lot more availability of scrap in a short range within Europe," said Mark



Steelworks: Arbed still towers over Luxembourg's industrial landscape

Guy Claret

Schonckert, Arbed's press officer.

However, the start-up costs will remain high as running the old a new systems in tandem will be expensive. "The objective is to achieve a complete switch-over as soon as possible," said Mr Schonckert.

The changes have become imperative as the long products sector has become increasingly competitive following a slowdown in the construction

sector and increased competition from eastern European companies.

Arbed's mid-term results show that it made no profits from this sector. "Arbed has had to face up to the dangers

of increased competition and a weaker market," said the analyst.

The company is also facing up to other weak points in its portfolio. The group's biggest challenge is to "sort out its finances" according to a Belgian-based steel specialist. "Its biggest challenge is debt reduction."

The group's net financial debt stands at LFr87.6bn compared with LFr70.5bn last year. More than LFr12bn of the increase of LFr16.7bn was a result of the consolidation of Stahlwerke Bremen.

The other major factor behind the rise in debt has been an increase in the group's trading activities, with net debt in the trading sector standing at LFr12bn.

Arbed has outlined a strategy that is necessary to reduce the debt levels, setting as a priority the need to reduce the gearing ratio. It plans to reduce working capital needs, concentrate on core businesses by diversifying in non-core activities and is considering opportunities for capital increases.

The group is optimistic about the outlook for its core activities. Flat products will be boosted by economies of scale at Sidmar and Stahlwerke Bremen while long products will benefit from the switch to electric arc furnaces.

■ **Insurance:** by Simon Gray

EU rules bring big business

Reinsurance cannot match the excitement of the cross-border life business

A year after the entry into force of the European Union directives establishing a more or less complete single market in insurance, Luxembourg's ambitions to become the centre for pan-European life business look well on track.

At the end of September, 35 companies were doing cross-border life business from Luxembourg, including domestic insurers who have climbed on the freedom of services bandwagon. Premium income from non-residents amounted to LFr29.3bn last year, almost exactly double the 1993 total.

Victor Rod, director of the Commissariat aux Assurances, Luxembourg's regulatory body

for the insurance sector, says it is "premature" to describe life business as the third pillar of Luxembourg's financial sector, after banking and investment funds, but he admits there are signs it could "become a very significant industry in the national economy".

If it does, Luxembourg will owe a big debt to Mr Rod for his work in creating the conditions for the Grand Duchy to become a player in the European market.

Since arriving at the Commissariat in the early 1980s, Mr Rod has worked to expand the scope of the sector beyond a saturated domestic market (at the end of 1993 there were some 35 non-life companies) offering little opportunity for growth.

Indeed, the main development over the past two or three years has been the creation of bancassurance

operations by the leading retail banks, squeezing existing players even harder.

The first initiative to develop new markets came in 1984 when, at the request of Swedish industrial groups headed by Electrolux, Mr Rod drew up legislation permitting the establishment of reinsurance companies.

Today about 220 reinsurance companies are operating, most of them captives, holding assets totalling more than LFr200bn. There were about 30 new arrivals in 1994 and a similar increase is expected this year.

Although most of the first reinsurance companies in Luxembourg were Scandinavian, today the largest number - more than 60 - are of French origin, followed by those from Belgium. With German groups also discovering the Grand Duchy, growth in the sector is

set to continue, according to Charles Beemard, managing director of captive management company Siner Europe.

Swedish-owned Siner is one of the world's top captive management groups, with operations also in Dublin, Bermuda, Burlington, Vermont and Singapore, and is co-market leader in Luxembourg with some 25 per cent. "I think there is still room for growth in Luxembourg," Mr Beemard says.

"Especially because of its position in the EU, Big groups are showing greater interest in captives because they allow you to bring premium and losses in one place and balance out the risks of a whole group of companies, and because captives also allow them to insure some kinds of risk for which there is no or little capacity in the market."

While the reinsurance market continues to record steady

growth, it cannot match the excitement of the cross-border life business. The latter received a boost at the beginning of this year as leading Belgian financial groups started to switch their customers' savings from state bonds into policies with Luxembourg life companies often set up for the purpose.

This means the premium income figures for 1995 will look quite different from last year's table, which was headed by PanEuroLife, part of France's UAP group, with LFr9.7bn, and the British/Swiss-owned Lombard International, with LFr5bn; these two companies collected about half the sector's premiums from non-residents in 1994.

For the first half of 1995, however, the list is headed by three companies set up at the turn of the year. Argentallife (LFr18.4bn), Investlife (LFr10bn) and Vitis Life (LFr8.8bn) have between them taken 27 per cent more premium income in six months than the entire sector throughout 1994.

At the same time, Luxembourg has been attracting new companies - especially from Britain - which seek to use it as a springboard into different continental European markets.

This year CMI has opened a branch initially targeting Germany, while a subsidiary of Scottish Equitable aims to capitalise on the group's experience selling investment fund products in Italy.

According to James Ball,

'Companies are looking not just at Italy but also less developed markets'

whose consultancy firm, JBI Associates, specialises in the insurance business, southern Europe is the newest target of the pan-European life companies. "Companies are looking strongly not just at Italy but also less developed markets including Greece, Spain and Portugal," Mr Ball says.

Italy is the latest market to be tackled by Lombard, which was launched in 1981 as the first true pan-European life company without a real home base, catering to the "grey panther" market of relatively wealthy individuals in their 40s and 50s. Today the company is active in Germany, Britain, Belgium, Sweden and France.

Italy, says John Stone, the chairman and chief executive, is a particularly attractive prospect because there is strong demand for international investment products and because it already has well-developed distribution channels in regional banks and independent financial advisers.

"Lombard's approach involves products constructed to meet the particular fiscal requirements of each market, and we are continually creating innovative new products," says Mr Stone.

Lombard, for example, has recently launched Guaranteed Stockmarket Bonds offering investors, alarmed by last year's market downturn, "the best of both worlds" - a no-loss

guarantee coupled with the opportunity to benefit from market gains.

If Mr Stone has a complaint, it is that most Luxembourg life companies remain focused principally on selling back into their home market. Although a mixture of marketing channels is common, about 60 per cent use the marketing facilities of affiliated companies.

Mr Rod acknowledges this, but believes the pattern is starting to change. "Newly-formed companies tend to start off by relying on existing marketing networks," he says. "Developing new networks in other countries is much more difficult and costly. But all of them intend to broaden their geographical scope. It depends on how rapidly they can build up a sales force."

His confidence is shared by Mr Ball, who says new companies are in the pipeline, "and the companies already here are taking an interest in new markets. I think Luxembourg is going to see an enormous amount of business. Victor Rod's got himself a hell of an explosive market."

■ **Compagnie Luxembourgeoise de Telediffusion:** by Emma Tucker

Government backing proves vital

Close links with the state have been crucial to success for the country's media company

It has been an eventful year for Europe's oldest commercial broadcaster. Compagnie Luxembourgeoise de Telediffusion (CLT), the Luxembourg media company known to thousands of television watchers by its RTL channels, has been preoccupied with events in Germany where Bertelsmann, the world's third largest media group, has been battling to take majority control of the RTL network.

Late last month, the Westdeutsche Allgemeine Zeitung (WAZ) newspaper group - which plans to merge its RTL holdings with Bertelsmann's by 1998 - purchased an additional 1 per cent stake in the RTL network.

The takeover raised WAZ's stake in RTL to 11 per cent. With Bertelsmann controlling 39.1 per cent of RTL, the joint venture with WAZ will give the two companies a 50.1 per cent hold over RTL.

CLT which owns 49.9 per

cent of RTL, did not take the moves kindly. It opposed WAZ's build up of shares in court and was granted a temporary injunction pending a full hearing. CLT argued that the planned Bertelsmann-WAZ merger would violate media laws prohibiting majority ownership of television networks.

The ferocity of CLT's reaction is hardly surprising. It took the company only five years to become the leading commercial TV broadcaster in Germany where its three stations command 21 per cent of the national audience.

The company enjoys market leadership elsewhere in Europe. It is first in Belgium and the Netherlands and ranks as number four in France. Its private radio stations meanwhile lead the market in France, the UK and Belgium.

The company's success in Europe's increasingly competitive media market is largely thanks to its extraordinary historical advantage, linked closely to Luxembourg's state policy.

As early as 1981 the Luxembourg government decided to encourage the development of the media industry and

allowed a private company - Compagnie Luxembourgeoise de Radiodiffusion (now CLT) - to broadcast from its territory, rather than creating a public sector broadcaster for its tiny population.

As a result the media has developed into an important sector of the Luxembourg economy, with companies other than CLT benefiting from the country's liberal regime.

This approach, which compared favourably with the highly regulated media sectors common in the rest of Europe, was perhaps the biggest attraction for investors.

According to private operators, government ministers are available to answer questions and resolve problems in person, reducing bureaucracy and speeding up decision-making.

"It is important to have the backing of governments, especially when you consider that in many countries the media is a political issue," Karin Schintgen of CLT says.

Another advantage for Luxembourg is that in spite of its size, it enjoys sovereign status. This means that along with other European countries it

has been granted an allocation of satellite frequencies.

In 1983 the government granted a franchise to private investors to use the satellite frequencies allocated to Luxembourg. This led to the establishment of the Astra satellite project, one of the country's

The Luxembourg government is doing its best to encourage its media industry to diversify

greatest successes.

SES, the franchise holder, created Europe's first privately-owned television satellite system. Today, according to government figures, 55m European households can receive a selection of 50 television channels and an even greater number of radio programmes either with a satellite dish or through

cable networks.

Luxembourg as a location has helped such development, argue companies such as SES and CLT. They point out that it is easier to appeal to a "European" audience from Luxembourg, which falls between several cultures.

Meanwhile, the Luxembourg government is doing its best to encourage its media industry to diversify, focusing on production companies. Since 1988 it has offered tax incentives to film makers aimed principally at producers of TV dramas.

The strategy started with mixed success. While more than expected was spent in the country by mainly small operators, few producers put down roots. Many producers simply made their films and then left, contributing nothing to the industry's infrastructure.

However, a change in the law a few years ago putting a greater emphasis on attracting indoor studio filming has, says the government, seen the establishment of more than 20 production companies, several animation studios, and at least four production and post-production studios.

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4 LUXEMBOURG

■ Tourism: by Victoria Greenwood

Looking beyond the banks

Stunning vistas, medieval towns and feudal castles are packed into this tiny country

Luxembourg, it is often said, is the place to stop off for cheap petrol and cigarettes, do some banking, perhaps dine in the city, but then pass swiftly on to the next destination.

But those tempted to drive through the country without so much as blinking should take care. The Grand Duchy contains some historic towns and stunning countryside, with more marked trails and paths – some 5,000km – than any other country in Europe, all packed into a country barely 80km wide.

Luxembourg's well-developed infrastructure is supported by a government committed to the expansion of tourism, and makes the Grand Duchy a popular leisure spot for the Belgians, Dutch and neighbouring Germans.

One of its most enticing areas is a region rich in history known as the "ancient kingdom of the giants", the Mullerthal or valley of the millers. It is also known more simply as "La Petit Suisse".

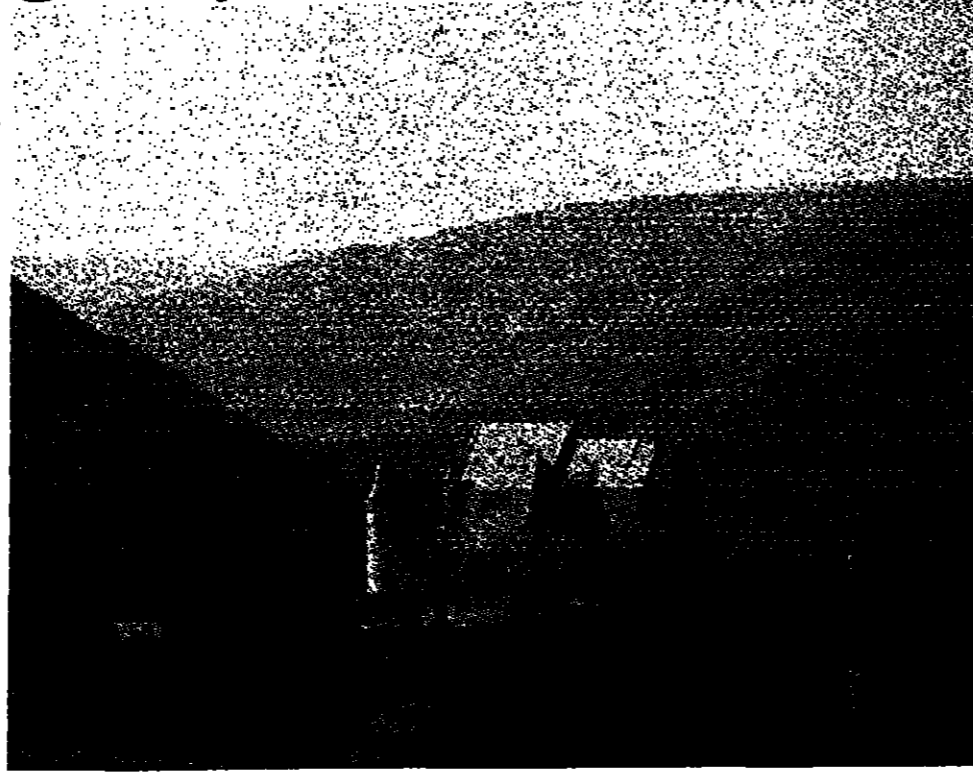
The tourist centre of the region is Echternach, situated on the banks of the river Sire, a town dominated by a Benedictine Abbey.

Inside a fine Roman Basilica, rebuilt after severe bombing in December 1944, is an ornate marble sarcophagus containing the remains of the Northumbrian-born Saint Willibrord, one of the earliest known advocates of a united Europe.

Today, the saint's life is celebrated at the annual Spring procession – a hopping procession – held on Whit Tuesday and an event which attracts thousands of pilgrims and spectators.

The town's annual music festival also draws large numbers of visitors as well as internationally renowned performers such as Maria Kliegel, the German cellist, and Alexandre Lagoya, the Spanish classical guitarist.

Nearby is a recently excavated Roman Villa while numerous water sports are



More than a just business centre the Grand Duchy contains some magnificent countryside

available on a large artificial lake on the outskirts of the town.

Echternach retains a medieval atmosphere, with its narrow streets and Gothic town hall, while its Sunday shopping attracts many German, Belgian and Dutch tourists.

The town is also the starting

Echternach retains a medieval atmosphere, with its narrow streets and Gothic town hall

point from which to hike or bike through an area of deep forests, crystal clear rippling streams and unique rock formations.

Two publications – Rambling Routes and Cycling Routes – that have been produced by the ministry of tour-

ism in French, English and German offer detailed routes across the area, with information on the distance and difficulty of the routes as well as short descriptions of the sights.

One of the best known local cycling routes is from Junglinster (just north of the city of Luxembourg) to Echternach (27km). The route passes through the old railway and tunnel, and on to a restored station at Bech, now a holiday home for young people.

One of the most striking examples of restoration in the area is the model village of Christnach, a quiet farming village of 340 inhabitants. Georges Calteux, director of sites and monuments, has been a driving force behind efforts to return villages to their original forms.

In Christnach, a new cobbled walkway winds through 18th century houses from the time of Empress Marie-Thérèse.

Larochette, at the westernmost point of the region, is dominated by two castles which rest high above the old market town looking down on the valley of the White Ernz. The town has a large Portu-

guese population, originally drawn to the region by a large textile factory which is now a cultural centre.

A well-marked trail takes the visitor from Larochette to Beaufort, where one of castles rises dramatically up from the out of forest.

This ancient castle lies in ruins, with parts of the fortress restored to incorporate a chilling torture chamber containing assorted instruments of horror.

The other castle, built during the 19th century, maintains an imposing guard over its former.

At Beaufort, numerous trails lead to the Mullerthal valley and to the Mullerthal itself, the centre of the Petit Suisse. Here paths intersect to reveal the splendour of the region's rock formations. Bizarre forms tower above deep natural pools and forests.

At the Schiessentempel waterfall – one of the country's most celebrated sights – a rustic wooden bridge affords a spectacular view and leads to an ascent to the fortified castle of Heringen, where the view across the valley is magnificent.

LUXEMBOURG Business guide

■ **Language**
Letzeburgish, French, German.

■ **Currency**
Value of Luxembourg Franc equals that of Belgian Franc, and is not quoted separately. Exchange and currency regulations applicable in Belgium apply to Luxembourg.

■ **Visa requirements**
Visas not required for nationals of the US, Japan, most western European countries and many others.

■ **Surface access**
Rail connections with Brussels, Frankfurt, Amsterdam, Basle and Paris. Good road links with Brussels, Trier, Paris, Frankfurt and Saarbrücken.

■ **Air access**
Regular flights by all major airlines.
National airline: Luxair.
International airport: Findel (LUX), 5km east of the capital.

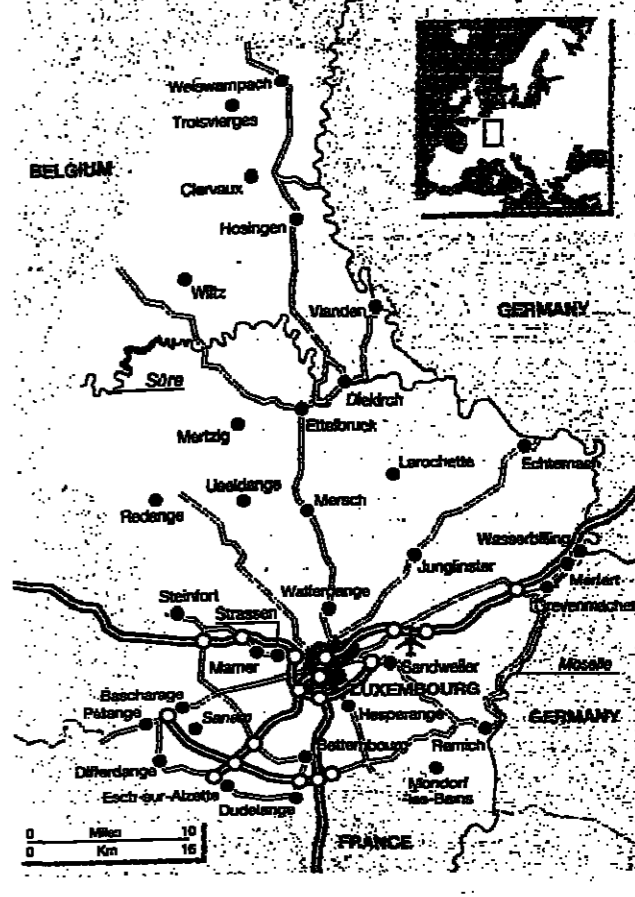
■ **Hotels**
A one to five-star rating system partially in operation. Bills include service charge. Tipping optional.

■ **Working hours**
Government and business: (Mon-Fri) 0800-1800, lunch 1200-1400.
Banking: (Mon-Fri) 0900-1630.
Shops: typically 0900-2000, closed Mon morning.

■ **Public holidays**
If a holiday falls on a Sunday, the Monday following is a holiday as well. Fixed dates: January 1, May 1 (Labour Day), June 23 (National Day), August 15 (Assumption), November 1 (All Saints), December 25/26 (Unofficial: November 2 (All Saints)). Variable dates: Easter Monday, Ascension Day, Carnival, Whit Monday (unofficial: Shrove Monday and Luxembourg Fair Day in Luxembourg-Ville only).

■ **Climate**
Temperate without extremes. Sea winds (south-west and north-west) shed a great part of their moisture before reaching the Luxembourg frontiers. July and August are the warmest, May and June the sunniest months.

■ **Time**
One hour ahead of GMT (Two from late March to late September).



■ **Membership of international organisations**
Benelux, BLEU, CCC, Council of Europe, EC, EIB, EMS, FAO, GATT, IAEA, IBRD, ICC, ICAO,

IDA, IEA, IFAD, IFC, ILO, IMF, Intelsat, Interpol, IOOC, IFU, ITU, Nato, OECD, UN, Unesco, Unidroit, UPU, WEU, WHO, WIPO, WMO.
Source: World of Information

PROFILE Jacques Poos

A stubborn optimist

Jacques Poos, the long-serving foreign minister of Luxembourg, is haunted by six fateful words. "This is the hour of Europe," he declared in June 1991, as he led a delegation of EU foreign ministers to Belgrade and Zagreb on a mission to halt the fighting in former Yugoslavia.

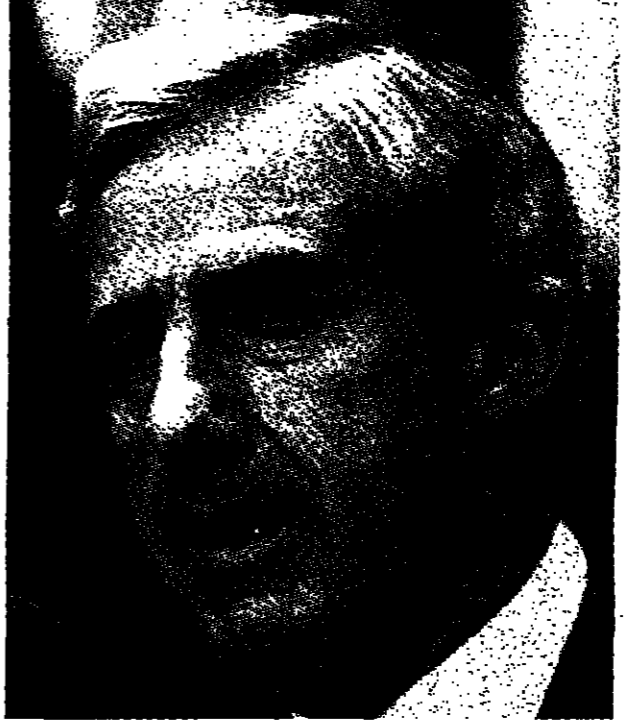
Mr Poos's words have become synonymous with the misplaced optimism, some say naivety, with which the European Union approached the Yugoslav crisis in its initial stages.

He belongs to a group of senior European figures such as Jacques Delors, then president of the European Commission, Hans van den Broek, then Dutch foreign minister and an EU commissioner, who remain profoundly affected by the ensuing war – the most serious setback to collective security in Europe since the failure to stop Hitler.

Sitting in his ministerial office in Luxembourg, Mr Poos, a 60-year-old socialist, reflects on the events of 1992 and their relevance today as the EU prepares for next year's inter-governmental conference (IGC).

"It was the end of the bipolar world, the end of the Gulf war, and the start of the Yugoslav crisis in the Luxembourg presidency [of the EU]. The Americans said no vital US interests were involved, and it was up to Europe to take the lead. Their message was: It's your continent."

Mr Poos supports his case by picking up a signed copy of former US Secretary of State James Baker's recently published memoirs – the *Politics of Diplomacy* – and citing the relevant passages. The Europeans were



Poos: 'We don't want Europe to turn into a Great Power game'

deceived constantly by the warring parties, he says, and that includes not just the Serbs, the initial aggressors, but also the Bosnians and Croats. "They had only one objective and that was to capture territory and to drive out the people – ethnic cleansing – it was terrible... But at least we got Slovenia out of the mess; we stopped the conflict spreading, and the UN arms embargo prevented outside powers being drawn in."

Mr Poos remains adamant that the EU is a civilian power possessing economic rather than military instruments to reinforce its diplomacy. He is sceptical about the idea of outside EU intervention, despite claims in some French and Dutch

quarters that an EU expeditionary force of about 20,000 might have been able to mount an effective intervention in late December 1991/January 1992, primarily to stop the shelling of Dubrovnik.

Mr Poos betrays unease about the political drift in the EU toward looser co-operation between nation states rather than the traditional *communitaire* approach which includes elements of supranational authority through the European Commission. "We don't want Europe to turn into a Great Power game."

In this respect, Mr Poos is critical of President Jacques Chirac's decision to resume nuclear testing in the South Pacific. He calls it an

"anachronistic and incomprehensible action", and reveals that he reprimanded Hervé de Charette, the French foreign minister, for failing to consult EU partners on the action.

Like his fellow Luxembourgers, who along with the British are the EU's most pro-US citizens, Mr Poos is wary of moves which may undercut the effectiveness of the Nato alliance, though he acknowledges that Europe should contribute more to its own defence.

Preserving the Community method is crucial for Luxembourg, he says, because it seems inevitable that next year's IGC will lead to a shift in voting weights toward the bigger member states. The Commission is the guardian of the smaller member states' interests, and Luxembourg intends to stick to its demand that all countries are represented with their own commissioner.

Though Luxembourg is ready to support an extension of majority voting in preparation for the next round of enlargement, Mr Poos says the Grand Duchy will insist on maintaining its right to a veto in six crucial areas: a new treaty, changes to the existing EU treaties, enlargement, fiscal affairs, EU association treaties and the seats of EU institutions.

Mr Poos, foreign minister since 1984, says he understands Luxembourg cannot hold the rest of the EU to ransom with unrealistic demands. His experience in two previous IGCs, in both of which Luxembourg acquitted itself well, should see him and the country through next time round.

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Thalidomide takes on Aids

Thalidomide's power lies in its ability to inhibit an immune system modulator called Alpha TNF (tumour necrosis factor), says Stirling. Normally, the chemical is needed by the body's cells to mount

At medical universities where thalidomide is being tested, researchers try to ensure that women will not become pregnant while they take the drug, says Arthur Caplan, a bioethicist at the University of Pennsylvania. Caplan



reviews research protocols for studies funded by the government. "It is a bitter irony that thalidomide is responsible for women being under-represented in clinical trials. And it is back again at a time when there is increasing pressure to have women's involvement in clinical trials. In FDA studies, women of child-bearing age must take two forms of birth control, have regular pregnancy tests, and sign an "informed consent form" detailing the effects of thalidomide.

Many drugs are on the market today that cause birth defects. These include Accutane, an acne treatment made by Roche, certain antipsychotics and the antibiotic tetracycline says James Mills of the National Institute of Child Health and Human Development in Bethesda, Maryland. "There is always going to be the question of how important the drug is for women and how dangerous it is for the embryo. And that has to be looked at on a case-by-case basis," he says.

John Ladd, says it will lose up to 30 per cent of its existing research capability to the services company. He argues, however, that the services company needs a strong technological division within its own structure for research and development. He and Arun Netravali, the newly appointed head of research at Bell Labs, are confident the organisation has a future which will prove as distinguished as its past. Stanzone says: "I believe in the golden age for innovation in telecommunications is still ahead

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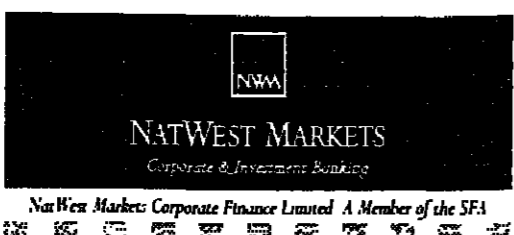
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LAW

Unlawful denial of access ruling



EUROPEAN COURT

In a landmark case decided last week, the European Court of First Instance ruled that the Council of Ministers had unlawfully denied a British journalist access to minutes of ministers' private debates.

The Court said when a request was made for access to Council documents, it was generally under a legal obligation to balance the interests of the individual's access to information against any interest of its own in maintaining the confidentiality of its deliberations.

The case arose from a request by Mr John Carvel, a Guardian journalist, for access to several Council documents including minutes of meetings of the Social Affairs and Justice Affairs and Agricultural Affairs Councils.

Under legislation adopted under the Maastricht treaty, the public is entitled to have access to Council documents under specific conditions.

Access will not be granted where, for example, disclosure could undermine the protection of the public interest. However, when such provisions do not apply, the Council is only given a discretion to refuse access to its documents in order to protect the confidentiality in its proceedings.

Following the request, documents relating to the meetings of the Social Affairs Council were sent to Mr Carvel. However, access was refused to the documents relating to the meetings of the Justice Affairs Council on the grounds that they related directly to the deliberations of the Council and could not be disclosed under the rules of procedure.

Those provided that Council deliberations were covered by the obligation of professional secrecy except where decided to the contrary.

Mr Carvel was told the Agriculture Affairs Council documents were not yet available. Mr Carvel then made a second request for the undisclosed documents. In reply, the Council said that if it allowed access to such documents, it would fail to protect the confidentiality of its proceedings. It also

said the documents relating to the meeting of the Social Affairs Council should not have been sent to him for the same reasons. They had been sent because of an administrative error.

Mr Carvel and The Guardian then brought an action for annulment of the Council's decision. The Court only examined one of their submissions - that the Council had infringed the legal provisions concerning access to its documents by expressing a blanket refusal to allow access to certain types of documents without carefully balancing the interests of the parties involved before deciding whether access should or should not be granted.

The newspaper relied on a statement made by the Danish and Dutch governments which confirmed in their view that the Council had not engaged in a balancing of interests before deciding to confirm the refusal.

The Council argued The Guardian had produced no evidence to support its allegation and claimed it had evaluated the relevant interests properly. It said the effective working of the Council would be jeopardised if national delegations knew that positions taken in Council meetings could be revealed to the public.

The Court ruled the relevant legislative provisions made it clear the Council, when exercising its discretion, genuinely had to balance the interests of the public in gaining access to its documents against any interest of its own in maintaining confidentiality.

It said the Council's reasons for refusing access indicated that it considered it was obliged to refuse access merely because they referred to its deliberations and disclosure would result in a breach of its rules of procedure.

The evidence provided by the intervening member states supported the conclusion there was no proper balancing exercise as required. The Court therefore concluded that the decisions refusing access should be annulled.

T-194/94 Carvel and Guardian Newspapers v Council, CFI 2CH, October 19 1995.

BRICK COURT CHAMBERS, BRUSSELS

Netravali named at Bell's dream factory

A pioneer of electronic images has been appointed head of research at AT&T's Bell Labs, the world's most famous "dream factory". Arun Netravali, 49, succeeds Nobel laureate Arno Penzias, who is taking the new position of chief scientist.

Netravali, born in India and educated in Bombay and the US, has much to live up to: "There is no question that I am stepping into very big shoes. Arno Penzias is my mentor and hero. I have worked with him for 20 years."

Netravali's move comes at a critical time for Bell Labs, which becomes part of the equipment manufacturing company after AT&T's recently announced break-up. He sees it as an important move for the Labs, which will make it easier to turn scientific innovation into marketable products. "In the past there have been strategic conflicts which have prevented the quick exploitation of new technologies."

Netravali spent time at NASA, working on the space shuttle before joining Bell Labs in 1972. He was named communications research vice-president in 1992. Alan Cane

Handy quits Manila

Howard Handy, 51, the international Monetary Fund's high profile representative in the Philippines, returns to Washington

replaces Paul Simons as chairman following the AGM on 24 November.

Yao Shaoxian, general manager of China National Aviation Corp has been appointed a director of Cathay Pacific Airways.

Nicola Migliore, responsible for co-ordinating Fiat's European market strategy, has been appointed chairman of Fiat Auto France. He replaces Jean Michel Benne, who becomes marketing and sales manager in Turin. Jean-Paul Vaillant becomes general manager of Fiat's French division.

Abdullah Abdul-Rahman al-Sharif has replaced Mohammad Suleiman al-Jarhon as general manager of the National Shipping Co of Saudi Arabia.

Richard Thomas has been appointed by Westpac Banking Corporation as managing director Australian Guarantee Corporation. He joined AGC from AVCO Financial Services.

Erich Mindrup, former head of worldwide sales and marketing at German packaging machinery manufacturer Windmoller & Holcher, has been appointed general manager of COFINEC Polska, a producer of flexible packaging products.

John Lillie, deputy chairman of Woolworths in Australia,

this week to take up the post of division chief in the middle east department.

During the Irishman's time in Manila, relations between the IMF and the Philippines got onto an even footing for the first time in their long and turbulent relationship. Senior Philippine ministers now talk of graduating from the IMF's assistance programme within a year.

For Handy, who is being replaced by David Nellor, a fiscal affairs expert, such a prospect would be entirely merited. "The Philippines has made enormous progress in the last few years," he said. "It has been very heartening to watch." Edward Luce

Joly joins Europay



Louis-Noel Joly, 57 (left), a senior executive with Societe Generale, is to take the helm of Europay, the Brussels-based international payment card organisation.

Joly, an expert on smart card technology, replaces Ron Williams, 59, a former NatWest executive, who retires as chief executive next June.

Europay International, formed from a merger of Eurocard International, the European affiliate of MasterCard, and Eurocheque International, is the biggest card group in Europe with 118m card holders having access to 124,000 automated

teller machines in 25 countries.

However, it is facing fierce competition from Visa International and Joly's technical background will be important as the new generation of card technology evolves internationally. William Hall

Nasko for research group



Horst Nasko (left) former vice chairman of Siemens Nixdorf Informationssysteme, has taken over as chairman of Jossi, the joint European research programme set up to close the

gap with the US and Japan in semiconductor technology.

Jossi, which is short for Joint European Submicron Silicon, currently oversees 72 projects involving 3,000 scientists and engineers in 16 European countries. The aim was to strengthen the position of Europe's semiconductor manufacturers and system houses. Nasko says it has enabled them to gain a clear lead in emerging markets such as cellular telephones and digital audio broadcasting.

The programme finishes at the end of next year. It will be up to Nasko, a leading figure in Europe's co-operative research and development initiatives, to make sure that Jossi does not pass away without spawning further collaborative efforts.

Technologies company.

Gilles de Dumast has moved from Bankers Trust to BZW as managing director, investment banking services, with responsibility for France.

Peter Dietrich has joined Noranda Mining and Exploration, as manager, project and operations analysis, from Mount Isa Mines in Australia.

M.K. Moitra, 53, has taken over as the director (commercial), of the Steel Authority of India Limited (SAIL). Moitra has been joint secretary in the Ministry of Steel, since June 1993, and a government nominee on the SAIL board.

Christopher Lee has resigned as chief financial officer of Grupo Tria, a leading Mexican construction company.

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مكتبة من الأصيل

A home for painters

William Packer finds fresh ideas at the familiar 'John Moores'

Well, the John Moores, as it is familiarly known, is coming round again, for the 19th time, as full of fresh new things as ever, and yet just the same as ever.

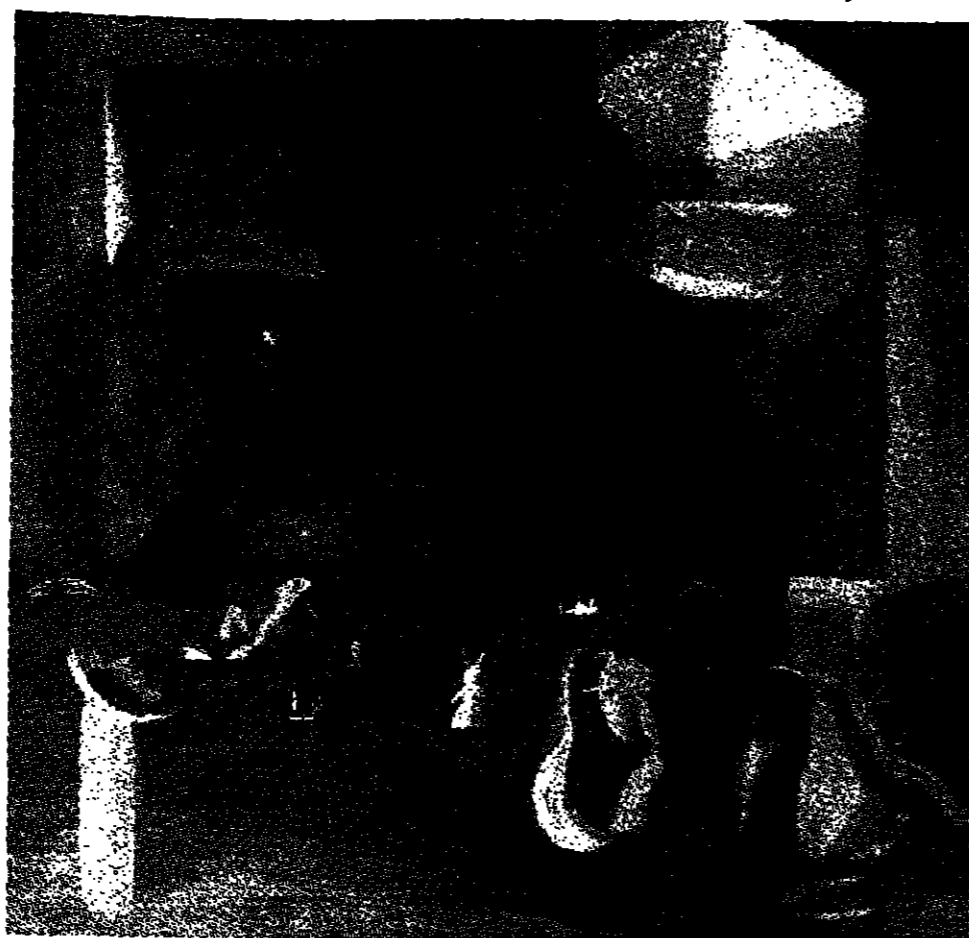
I must admit to a certain residual fondness for it, for I too have served my turn on its selection panel, many years ago, and still feel a proprietary interest in what others have made of the job, tempered by a quiet *schadenfreude* as the bricks come flying in. How could they possibly have given that prize? How on earth did that get in? It can't possibly go on like this.

Every time - and especially now that old Sir John Moore himself, its founder, protector and eternal sponsor, is dead - the talk is of crisis, reform and possible abandonment. And nothing changes very much. A different set of rooms in the splendid Walker Art Gallery may now be used. A mere cup of tea and a biscuit at the private view as reward for the journey from London, instead of the wine and cottage pie of the good old days, may betray leaner circumstances. But that is all. I should certainly miss it were it to go.

For it still holds its place, nearly 40 years on from its inception. Then, in 1957, it was quite alone. Other prize exhibitions and competitions have since come and gone. Others have matched and even out-run it in terms of notoriety and largesse. But still the John Moores is the one that painters of all persuasions, who yet consider themselves remotely modern and of their time, want to win.

Rather more than that, the winning is almost beside the point, for all that £20,000 to the winner and £1,000 apiece to the 10 runners-up is not ungenerous. The taking-part, and the note on the CV like a battle honour, is enough.

It is limited to painting, in the conventional definition of paint applied to a flat support and hung on the wall, but with



Recognition deserved: Mary Mabbutt's 'Big World, Small World'

no apparent limitation as to size. This alone, in times when it is often argued that painting is outmoded and increasingly irrelevant, is enough to give the Moores a real and general significance. And in the event, with familiar names conspicuous by their absence and rather more than half the show supplied by artists more or less unknown, it is most encouraging.

Not everyone sends in, of course, and with a total submission of 1,644, the trend appears to be down by some 30 per cent from my day. But if fewer are called, fewer are chosen, which leaves the odds against getting in much the

same, at about one in 27. Sixty works make up this exhibition, which is indeed ungenerous and a mistake.

There was a time when the Moores held twice that number and was none the worse. To plead the more constricted space is disingenuous, for the chosen paintings are more uniformly, conventionally, plonkily large than in any Moores I can remember.

The present orthodoxy, which too many artists accept unthinkingly, that large is necessarily more important and significant, is to be resisted. But small works do get bullied

out of it in such shows as this unless the jury insists otherwise. If they are, it is the jury's fault.

A small show also makes the selection more difficult than it need have been, especially when the jury is obviously divided in interest, and compromise elusive. This year, by all accounts, there was blood on the floor, and pious regret on all sides at what was left out at the final cut. Well, in that case, it could and should have been left in.

As it is, the general impression is of a selection fairly evenly split between abstract and figurative, but figurative only of a quickly narrative

kind. Certainly there is nothing worked directly and objectively from the thing seen, no life or figure painting nor any landscape that is not self-consciously modified or formally exorcised in some way. As for the abstraction, it runs from hard-edged minimalism to conceptual formalism, with a strong helping of expressionism in the middle.

Is there any discernible trend in all of this? No, and we need not fall back on the particular works, taken on their merits.

Of those who come away empty-handed, Noel Forster's systematic overlaying of dense meshes of colour is as distinguished as ever. Leonard McComb's large still life should have walked off with the prize and John Holden's minimalist holds its own with a quiet authority.

Paul Butler's looming flyover at dull red dusk was another unlucky not to be rewarded. There are good and characteristic things from Anthony Green, Ken Kiff, Albert Irvin and Arturo di Stefano, and of those names new to me, I particularly liked Gavin Robinson's richly painted scatter of objects in an interior and Harriet Guinness's block of flats.

Of the prize-winners, Paul Green's full-length portrait of his wife would certainly have been on my list, as would Jane Walker's free and confident 'House for a Homeless Person', in which formal and abstract elements set off the representation of building and landscape. Again, both artists are new to me. And it is good to see Mary Mabbutt, whose London show at the Paton Gallery I mentioned last weekend, being recognised at this level.

David Leapman's ponderous 'Double-tongued Knowledge', with its self-conscious interplay of hard-edged abstraction and scrawled graffiti-like imagery, carries off first prize.

The John Moores Liverpool Exhibition is at Walker Art Gallery, Liverpool, until January 28.

Wexford Festival/Andrew Clark Reflections from Italy

Wexford is *sui generis* - which is why the festival in this little Irish seaside town continues to shine like a beacon on the international horizon. There was no clear winner among this year's trio of operas, but all were worth hearing - not least because Wexford's musical standards have reached a new high. That says something about the impact of the incoming artistic director, Luigi Ferreri.

His Italian sensibility is at ease in a festival which made its name exhuming forgotten works of the *ottocento*. It manifests itself in conservative stagings and a fascination with the transitions which Italian opera underwent immediately before and after Verdi. Judged from that point of view, the two Italian works on the programme - Puccini's *Saffo* (1890) and Mascagni's *Iris* (1888) - have something in common, even if their musical idiom reflects a huge half-century of change.

Both composers were searching for a new direction. The prolific Puccini sought an escape from the structural and emotional straitjacket of *bel canto*. Mascagni experimented with symbolism as an antidote to *verismo*. It was their misfortune to have their efforts overshadowed by bolder, more

inspired contemporaries.

With a taut libretto by Cammarano, *Saffo* tells the story of a classical Greek poetess whose thwarted love leads her to suicide. Puccini's score - generally considered his best - is notable for the way he knits the solo contributions into extended musical numbers, achieving a less artificial atmosphere than is usual in pre-Romantic opera. But the 'maestro delle cabarette', as Puccini was known, still manages to pull off a succession of remarkable display pieces.

Notwithstanding the tiny stage of Wexford's Theatre Royal, the opening performance last Thursday had grandeur and opulence - for which the disciplined responses of the conductor, Maurizio Benini, laid a vital foundation. As Clemen, the young Bulgarian mezzo Mariana Pentcheva swept all vocal honours, thanks to her musicality, thrusting tone and a perfectly smooth progression from simple chest register to exciting top. Beni Montresor's superbly lit staging was more decorative than dramatic.

Much the same could be said of Lorenzo Mariani's treatment of *Iris*, Mascagni's pre-*Butterfly* Japanese tragedy. Illica's libretto about the abduction and suicide of a poor laundry girl is deliberately flimsy: Mascagni saw archaic Japan as the

real protagonist, its exotic myths and violent passions cradling a moral about the transcendence of innocent goodness over calculating evil.

The opera cries out for a searching modern interpretation which penetrates its stereotyped oriental imagery and bolsters its fragile dramaturgy. Mariani and his designer Maurizio Ballo saw it instead as a window for western ideas about Japanese culture. Iris resembled a doll coming to life behind a glass cabinet, her fate played out alongside a vase which fractures and falls.

The score has its share of pretty choruses and veristic crescendos. The conductor, Bruno Aprea, deserves credit for making it all sound so tautly convincing. Michie Nakamura's soprano was too shrill for the title role, though she acted well.

The beefed-up festival chorus, along with the RTE Symphony Orchestra in the Theatre Royal's newly expanded pit, was also the chief glory of Rimsky-Korsakov's *May Night*. Stephen Medcalf's staging of this Gogol-inspired folk comedy had the look of a primitive touring production, relieved by the comic gifts of a predominantly Russian cast and the radiant Slavonic tenor of Vsevolod Grivnov.

Opera/John Allison

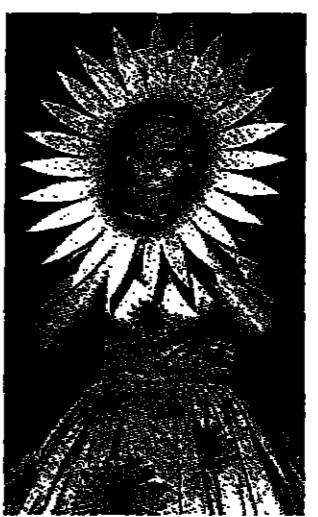
'The Fairy Queen'

Fears that English National Opera, only a decade ago perhaps the most consistently exciting opera company anywhere, has lost its way artistically were cruelly confirmed by the dismal new *Fairy Queen* unveiled last week. Billed as the ENO's tribute to Purcell in his tercentenary year, David Pountney's production seemed an insult to both composer and audience (sections of which, sat enthralled).

Comparisons with the Royal Opera's (imported) staging of *King Arthur* in May are unavoidable. Whereas at Covent Garden Graham Vick found dazzling modern equivalents for old enchantment, here Pountney, the company's former director of productions returning for the first time in almost two years, piles a depressing parade of gags on what had been a 'semi-opera'; he cuts the dialogue, making this *Fairy Queen* more flimsily 'semi' than 'semi'.

Pountney's idea of preserving the original score's 50 numbers but dispensing with the spoken text had seemed sensible - *The Fairy Queen* is, of course, based on an inferior, bowdlerised version of *A Midsummer Night's Dream* - though by imposing what the producer described as a 'shadow' of Shakespeare's plot and making Titania's and Oberon's quarrel over the Indian Boy the central focus, he only increases the work's theatrical inferiority. With a new scenario it feels no tighter than a conventional *Fairy Queen*: its five acts are compressed into three, each separated by an interval, with a running time of three hours.

Though Purcell undoubtedly set out to entertain large audiences, he was not the Andrew Lloyd Webber of his day that



Well-sung: Janis Kelly

this piece of pointless pantomime tries to suggest. In concert performance, Purcell's rich score cries out for staging, but here trashy antics bring nothing dramatic to the proceedings. Pountney seems determined to distract attention from the music, when sound effects and noisy props do not intrude, there is messily directed stage business from the large cast of singers and dancers; the Drunken Poet's progress through the auditorium and on to the conductor's podium was unfunny. This is Extremely Naff Opera writ large.

Quincy Sacks's camp choreography might have made witty impact in smaller doses, or on a less cluttered stage than that designed by Robert Legat. Though his basic sets are little more than a collection of cream-coloured walls and daubed drops, they are constantly shifted to untidy effect. Dunya Ramkova's costumes run from 18th-century footmen through top-hatted

Victorians to contemporary grey-suits and fetishists. The cost of the show - this is, after all, the team that created Glass's *The Voyage* at the Metropolitan Opera - to a cash-strapped company does not bear thinking about. More depressing is the apparent cynicism of a producer who - as the 1983 *Rusalka* now in revival reminds - once believed in the power of opera.

Alas, the musical competencies are not great. Nicholas Kok, often an alert, stylish conductor of Baroque opera, was dull and inflexible on opening night. Without the possibility (as at Covent Garden) of raising the pit, the orchestra - a mix of conventional instruments, lutes, drums and recorders - sounds with less than ideal attack.

Yvonne Kenny's sensuous-looking Titania is an unexpected disappointment. Her 'Plaint' hard-edged and gracelessly phrased. Thomas Randle's virile tenor makes him an exciting Oberon, and Michael Chance's sweet-toned Oberon-tenor provides his character. Nick, with some credibility (his camp is of a class missing elsewhere). Strangely, the celebrated counter-tenor number 'One charming night' went to a smaller-voiced, hooley singer. Richard Van Allan, never a Purcellian and now in threadbare voice, brings as much dignity to Theseus as permitted. When allowed to sing straight, Jonathan Best (Drunken Poet) is good, and there are lively, well-sung contributions from Yvonne Barclay, Mary Hegarty, Janis Kelly and Mark Le Brocq. Simon Rice's Puck stands out among the dancers.

Performances at the Coliseum until November 23.

Theatre/Alastair Macaulay

Daring look at way of world

Phyllida Lloyd's new staging of Congreve's 1700 comedy *The Way of the World* is daring, refreshing and nearly marvellous. Perhaps the production's greatest dare lies in Anthony Ward's designs, which give us an ultra-modern, or rather post-modern, London, very Vivienne Westwood, while full of references to the Restoration era in which the play was written. The ladies wear brief, chic mini-skirts (flowing trousers for Millamant) as part of outfits that also include long, full trains; the gentlemen wear three-piece suits whose jackets are full frock-coats; the ladies use face and dark glasses. Lloyd has discreetly edited the text, cutting the more blatantly period references.

Other signs of the production's quality lie in the fact that the play's most complex role, Mrs Marwood, becomes, in the hands of Sian Thomas, its most interesting; and that one of its 'period' pop roles, Anthony Witwoud, becomes, with Julian Rhind-Tutt, its most modern. Amid a strong cast, these two performances stand out. With glamour, authority and feeling, Thomas gives us every warring facet of Mrs Marwood: the hypocrite, the spy, the schemer, the courtier, but above all the wracked woman in whom disappointed love for one man has turned into hatred for the world.

With Rhind-Tutt, Witwoud's affectation becomes so transparent that this silly man of fashion becomes, of all darling things, vulnerable. His idle

banter is, actually, artless. 'But I talk like an old maid at a marriage, I don't know what I say,' he says with his knees together and bobbing rapidly to both the men with whom he is conversing. And on he bubbles, helpless and forever boyish right up to his final delicious remark: 'Egad I understand nothing of the matter - I'm in a maze yet, like a dog in a dancing school.' Veronica Quilligan brings poignancy to the role of Mrs Fainall; and Anthony O'Donnell makes the rustic Sir Wilful Witwoud believable, and funny even in the drunk scenes.

But these are not the roles by which *The Way of the World* is usually best remembered. Lady Wishfort is Geraldine McEwan, Mirabell is Roger Allam, Millamant is Fiona Shaw. All three give accomplished, but narrow performances that will remind theatre-goers too often of performances they have given before. This is at its most vexing with McEwan's Wishfort. Visually brilliant: she wears a Barbara Cartland visage (black artificial eyelashes heavily bleary through a chalk-white

facade) and, in later scenes, a Christian Lacroix-type puff-mini-skirt of multiple rosebuds. A diplomancer, she ends up in decline on some refuse bags - a stroke that looks, like too much about McEwan's performance, like the merest effect. Vocally, she is infuriating. Any old once-delicious vocal trick - those octave plunges, those affected diphthongs ('Mey dyah') - is trotted out so that she shows off affectations even at the passages when Wishfort should be at her most regally sincere.

Ten years ago, many of us thought that God had made Shaw to play Restoration and 18th-century comedy. But now that she has returned to this? Perhaps she wishes to show Millamant as a fashion-plate who wars against fashion; but she obscures, rather than illumines, the role's self-contradictions.

Sure, she has dropped most of the mannerisms that have marred her recent interpretations. Sure, she is a star, always commanding attention.

But why the stupid Bertoffian mime with which she illustrates such famous lines as 'I may by degrees dwindle into a wife' (shrinking down to do him obeisance)? And - though, now and then, she shows a stillness and a dignity to make everyone else onstage look small-scale - hers overall is a busy, fidgety performance.

Allam is much simpler. Always relaxed, urbane, focused, this actor is a model of discipline; and he plays so well to Shaw that her most charming moments are in response to him. But his intonation is too often jaded. He speaks lines as if he were already bored by them. Millamant could not wound, nor Wishfort alarm, this Mirabell.

The difficult role of Fainall is understated; Richard McCabe plays him like a villain of Victorian melodrama. Cyril I Nri's Petulant is loud and unfunny. As the sum of all these parts, *Way of the World* is a puzzlement. And Ward's designs, like some of the leading actors, draw too much attention to their own contrivances. Act Four features some flashy changes of scene that actually diminish Congreve's dramatic truth; and Act Five, set in the street outside Wishfort's house, does not ring true. The first three acts of this production give us the way of the world; the latter two give us the way of the theatre.

In Royal National Theatre repertory at the Lyttelton Theatre, South Bank.

● Arata Isozaki: drawings and paintings by the Japanese architect who was responsible for the Los Angeles Museum of Art, the Brooklyn Museum, Munich Museum of Art and other buildings of a public nature; to Nov 5

BERLIN

OPERA/BALLET
Deutsche Oper Tel: (030) 34384-01
● Madame Butterfly; by Puccini. Conductor Sebastian Lang-Lessing, production by Pier Luigi Samaritani; 7.30pm; Oct 25

FRANKFURT

CONCERTS
Alte Oper Tel: (069) 134 0400
● City of Birmingham Symphony Orchestra: Sir Simon Rattle conducts Beethoven's 'Symphony No.1' and 'Symphony No.3'; 8pm; Oct 31
● State Orchestra of Dresden: Giuseppe Sinopoli conducts Busoni, Schoenberg, and Tchaikovsky; 8pm; Oct 30

LONDON

CONCERTS
Royal Festival Hall Tel: (0171) 928 8800
● Guitar Encounters: an evening of guitar, flamenco and Andean music with John Williams, Paco Pena and Inti-Illimani; 7.30pm; Oct 24
● The London Philharmonic: with mazzocco-soprano Jennifer Lamore, bass José van Dam and the London Philharmonic Choir. Roger Norrington conducts Berlioz's 'The Damnation of Faust'; 7.30pm; Oct 25



AMSTERDAM

GALLERIES
Rijksmuseum Tel: (020) 673 2121
● The Portrait: drawings, prints and photos spanning some 500 years. Artists include van Gogh, Rembrandt and Gauguin; to Oct 29
Stedelijk Tel: (020) 573 2911
● 100 Years: three exhibitions to celebrate 100 years of the Stedelijk. On show is art from the Reginald Collection which includes the likes of Kandinsky, Chagall and Chirico; to Oct 29
OPERA/BALLET
Het Muziektheater Tel: (020) 551 8822
● Moses and Aaron: by Schoenberg. A new production directed by Peter Stein and conducted by Pierre Boulez. Soloists include David Pittman-Jennings as Moses and Chris Merritt as Aaron; 8pm; Oct 25, 28

BARCELONA

GALLERIES
Fundación Joan Miró Tel: (93) 329 1908

● The London Philharmonic: Gary Berkson conducts a selection of ballet classics; 7.30pm; Oct 27
GALLERIES
Hayward Tel: (0171) 261 0127
● Art and Power: examination of the relationship between art and politics in thirteenth and fourteenth Europe where culture became an arena for the struggle between Communism and Fascism; from Oct 28 to Jan 21
Serpentine Tel: (0171) 402 0343
● Big City, Artists from Africa: sculptures, drawings, images and objects by contemporary artists from several African countries; to Nov 5
OPERA/BALLET
English National Opera Tel: (0171) 632 8300
● Carmen; by Bizet. Conducted by Sian Edwards/Michael Lloyd and directed by Jonathan Miller. Soloists include Louise Winter, Robert Brubaker and Janice Watson/Cathryn Pope; 7.30pm; Oct 26, 29; Nov 1
THEATRE
Dorset Warehouse Tel: (0171) 369 1732
● The Glass Menagerie; by Tennessee Williams, directed by Sam Mendes. Cast includes Zoe Wanamaker and Claire Skinner; 8pm; to Nov 5

MUNICH

GALLERIES
Kunststiftung der Hypo-Kulturstiftung Tel: (089) 22 44 12
● Felix Vallotton: retrospective of the Swiss-born Nabis group member; to Nov 5
OPERA/BALLET
Bayerische Staatsoper Tel: (089) 22 13 16
● Anna Bolena; by Donizetti. Conducted by Fabio Luisi and produced by Jonathan Miller. The cast includes Edita Gruberova, Vesselina Kasarova, Anne Salvan and Roberto Scanduzzi; 7pm; Oct 30; Nov 2

Conducted by Fabio Luisi and produced by Jonathan Miller. The cast includes Edita Gruberova, Vesselina Kasarova, Anne Salvan and Roberto Scanduzzi; 7pm; Oct 30; Nov 2

NEW YORK

CONCERTS
Carnegie Hall Tel: (212) 247 7800
● BBC Symphony Orchestra: with violinist Nadja Salerno-Sonnenberg. Andrew Davis conducts Carter, Glazunov and Brahms; 8pm; Oct 25
● Pittsburgh Symphony Orchestra: with flutist James Galway. Lorin Maazel conducts Gould, Mercadante, Maazel and Bartok; 8pm; Oct 27
● Pittsburgh Symphony Orchestra: concert performance of Wagner's 'Tristan and Isolde' conducted by Lorin Maazel. Soloists include Carol Yahr, Heinz Kruse and Falk Struckmann; 8pm; Oct 28
GALLERIES
Guggenheim Soho Tel: (212) 423 3500
● Dieter Appelt: retrospective with more than 60 paintings and sculptures; to Nov 5

PARIS

GALLERIES
Centre Georges Pompidou Tel: (1) 42 77 12 33
● Feminine and Masculine: the sexuality of art. Exhibition exploring sexual identity and its effect on twentieth century artists; to Jan 8
● Hybert, Quardona and Roudenko-Bertin: running in conjunction with 'Feminine-Masculine', three artists of different styles produce works that demonstrate the relationship between sex, the body and sexual differences; from Oct 25 to Jan 1
Centre National de la Photographie Tel: (1) 63 76 12 31
● Martin Parr: British photographer uses motorists and tourism for his inspiration; to Oct 30
Galerie Schmitt Tel: (1) 42 60 36 36
● 'La Femme'; from Corot to Chagall. 60 paintings dating from 1824-1949 by artists such as Degas, Gauguin, Picasso and Renoir; from Oct 24 to Feb 28
Hôtel de Ville de Paris Tel: (1) 42 76 44 24
● Paris Through Cinema: historic relationship between Paris and the Cinema over the last 100 years; to Nov 4

that demonstrate the relationship between sex, the body and sexual differences; from Oct 25 to Jan 1
Centre National de la Photographie Tel: (1) 63 76 12 31
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Hôtel de Ville de Paris Tel: (1) 42 76 44 24
● Paris Through Cinema: historic relationship between Paris and the Cinema over the last 100 years; to Nov 4

STUTTGART

OPERA/BALLET
Staatstheater Tel: (0711) 2 03 20
● La Damnation de Faust; by Berlioz. Conducted by Gabriele Ferro and directed by Luciano Damiani. Soloists include Marilyn Schlegel, Keith Lewis and Ludwig Baumann; 7pm; Oct 29

VIENNA

CONCERTS
Gesellschaft der Musikfreunde Tel: (1) 505 1383
● Czech Philharmonic: with soprano Angela Maria Blas and bass-baritone Thomas Quasthoff. Gerd Albrecht conducts Eben, Mahler and Dvořák; 7.30pm; Oct 28, 29
OPERA/BALLET
Wiener Kammeroper Tel: (1) 512 0100
● The Turn of the Screw; by

Britten. Conducted by Edgar Selpenbusch/Joan Grimait. Soloists include Mark Duffin, Olga Scholawa and Felix Puzoswinski Petersen; 7.30pm; Oct 25, 28, 30; Nov 1, 4

WASHINGTON

CONCERTS
Kennedy Center Tel: (202) 467 4600
● National Symphony Orchestra: with pianist James Tocco. George Manahan conducts Debussy's 'Iberia', Stravinsky's 'Concerto for Piano and Wind Instruments' and Rachmaninov's 'Symphonic Dances'; 8.30pm; Oct 24
● National Symphony Orchestra: Sir Neville Marriner conducts Bartók, Mozart, Nelson and Beethoven; 8.30pm; Oct 26, 27, 28
● Pittsburgh Symphony Orchestra: with violinist Hilary Hahn. Lorin Maazel conducts Mendelssohn and Bartók; 8pm; Oct 25
● Pittsburgh Symphony Orchestra: with pianist Hae-Jung Kim. Alexander Dmitriev conducts Tchaikovsky's 'Piano Concerto' and 'Symphony No.4'; 8.30pm; Oct 30
GALLERIES
National Museum of Women in the Arts Tel: (202) 783 5000
● Julia Margaret Cameron: the Mia album. 19th century photographs including portraits of Alfred Lord Tennyson and Sir John Herschel; to Oct 29

THEATRE

Ford's Theatre Tel: (202) 347 4833
● Elmer Gantry; Michael Maggio directs this revival of the Pulitzer Prize winning novel by Sinclair Lewis with libretto by John Bishop and music by Mel Marvin; 7.30pm; to Oct 29

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Tonight

When Lord Young, chairman of Cable and Wireless of the UK, declared in Jerusalem earlier this year that European companies were ready to invest in Israel, many Israelis dismissed his remarks. They regarded his words as typical of the rhetoric of businessmen who have flocked to the Middle East recently with promises rather than cash.

So when a few months later Cable and Wireless bought 10 per cent of the shares in Bezeq, the state-controlled telecommunications company, for \$150m, the government and local business people were caught off-guard.

Israel will look back on 1995 as the year when international finance and business discovered its thriving economy. Net foreign direct investment reached \$673m in the first six months, a 60 per cent increase on the \$412m invested in the whole of last year, according to the central bank. Foreign investment in tradeable securities on the stock market grew to \$231m in the first half of this year, 26 per cent higher than the \$183m invested during 1994.

Foreign interest has been stimulated by Israel's peace agreements with Arab neighbours, the government's continued deregulation of its once state-dominated socialist economy, and faster than anticipated economic growth.

Last Friday Intel, the US computer chip manufacturer, announced an agreement to build a \$1.6bn semiconductor facility in southern Israel - the country's largest private foreign investment to date. "The American business community sees this as an expression of confidence in the Israeli economy and in Israel," says Mr Avraham Shochat, finance minister. "It creates the view of Israel as a place with the manpower and the technology to attract a project like this."

Mr Dov Frohman, general manager of Intel Israel, said the company's decision to invest further in Israel would attract more foreign capital-intensive investment, particularly in Israel's emerging high-technology sector.

Other big deals announced this year include:

- a memorandum of understanding between Germany's Volkswagen and the Dead Sea Works to build a \$600m magnesium processing plant;
- the purchase of 22 per cent of Koor Industries, Israel's largest conglomerate, by Shamrock, a US investment company, for \$252m;

State of attraction

Peace hopes and economic growth are drawing foreign investment to Israel, writes Julian Ozanne



Source: Bank of Israel, Zarnes Securities

Volvo's acquisition of 50 per cent of Merkavim, Israel's largest bus manufacturer; the \$300m purchase of Lanet Data Communications by UK-based Madsen Networks; and an option taken by Swiss-based Nestlé to buy 10 per cent of Osem, Israel's second largest food company.

"Big European companies are now active in Israel with decent size investments; all the major European banks have established a presence and the Asians are coming," says Mr Ron Lubash, managing director of Lehman Brothers Israel, the investment bank. "The fastest growing business is mergers and acquisitions and what has been announced is only the tip of the iceberg."

Markets in Asia, such as China, India, Indonesia and Japan, are also opening up for Israel. Israeli exports to Asia rose 13 per cent in the first six months of this year.

"A lot of businessmen see

Israel as the fulcrum of economic development in the region and we are taking the view of the next 20-30 years," said Lord Sterling, chairman of P&O, the UK shipping company, during a visit to the region earlier this year.

Foreign investors have also expressed growing confidence in the macro-economic policies of the government. Despite restrictive monetary policy since late 1993 and pessimism about the impact of high interest rates on the economy, figures published yesterday by the Central Bureau of Statistics suggest growth this year of 6.8 per cent - after five years of strong growth averaging more than 5 per cent annually.

At the same time inflation, which last year reached 14.5 per cent, is set to fall to about 9 per cent for 1995; and unemployment has declined from 11.3 per cent in 1992 to 6.2 per cent at a time when Israel continues to absorb up to 80,000

new immigrants a year.

"We are going to meet our target of inflation for this year of 8-11 per cent," says Mr Jacob Frenkel, central bank governor. "Our record shows in a conclusive way that all the scares and arguments that fighting inflation will cause excessive slowdown in the economy have been dramatically refuted. We have proved it is possible to reduce inflation while maintaining and accelerating growth."

But the approach of elections in November next year has drawn attention to the debit side of Israel's economic score sheet - its failure to push ahead with privatisation and improve competitiveness in the face of opposition from public sector workers and vested interests. Although the government is still talking about the privatisation in the coming year of Bank Hapoalim and Zim, the shipping company, many economists remain pessimistic about its political will in an election year.

Concern is also growing about the medium-term impact of rapid growth. The most important problem is the current account deficit, which is set to rise from \$2.5bn last year to \$4bn this year. The central bank believes the rapid fall in unemployment and a 15 per cent increase in the M1 money supply in the first eight months of this year are warning signs that overheating needs to be avoided.

Some foreign investors welcome warnings of further restrictive monetary policy, as a signal that the central bank is determined to continue the fight against inflation. Others say the warnings emphasise the difficulties of taking demand pressures out of the economy, point towards a continuing strong shekel with pressure on corporate profits; and further delay the re-entry into the stock market of local investment funds.

But as long as the fundamentals of Israel's economy point towards solid growth, new foreign markets and expanding corporate profits, the flow of foreign investment and the pace of mergers and acquisitions are likely to continue. "For foreign investors Israel has reached the position where it is no longer an emerging market. It has emerged. And the growing level of sophistication and depth in the economy will guarantee continuing foreign interest," says Mr Lubash. "There are going to be a lot more deals to come."

Europa: Dominique Moïsi

End of age of innocence



With the possibility that the communists will win more votes than any other party in Russian parliamentary elections in December, it is time for Europe to define its relationship with that vast country. Should it be contained, should Russia be perceived as a renewed threat, a pillar of European stability outside the European Union or a potential member of an enlarged EU, albeit in the distant future? Europe's hesitancy in addressing this vital question stems as much from the disagreements between Europeans about what they want the EU to be as from their doubts and uncertainties about Russia itself.

For two years after the collapse of the Soviet Union, western Europeans - and Americans - deluded themselves into believing that *homo sovieticus* could be instantly turned into *homo economicus*.

Russia contributed to this illusionary Age of Innocence by turning its back on its communist past and wholeheartedly embracing western values. The country was seen by some in the west as a clumsy and less gifted Federal Republic of Germany: a pupil willing to make amends for past faults and to catch up with the rest of the class; to join the western, democratic, capitalist world as quickly as possible.

But while some in the west dreamt that Russia might take the Federal Republic as a model, the majority were worried that the Weimar Republic might turn out to be a more appropriate precedent. These pessimists realised that it was essential for the west to do its utmost to prevent Russia's humiliation and isolation after its cold war defeat. Russia

shrewdly played on these fears in an effort to win the west's support and understanding.

Today the Age of Innocence is over. Russia is back with an assertive vision of its national interest and an unclear definition of its political future. Russians describe this new nationalism as "enlightened patriotism". But can there be any such thing as enlightened patriotism in a country whose historical identity has been imperial since at least the 17th century?

Given Russia's attitude towards its former empire and its unstable political situation, what stand should Europe take?

It has three choices. The first is the simplest and the least desirable: namely to cast Russia in the role of "bad guy", as simply a continuation of the Soviet Union. Proponents of this course of action argue that an ultra-nationalist Russia would be no less dangerous than a communist one. They say the combination of Russia's nuclear strength (the large number of missiles in its possession) and its nuclear weakness (the risk of new Chernobyls) means that it remains the most serious threat to western Europe. Similarly, for most central European countries, Moscow remains an important security concern.

This negative vision of Russia could conceivably become a self-fulfilling prophecy. But it is, for all that, a lazy and largely anachronistic view. It is neither desirable nor probable that it should come to pass. No matter how uncertain its future, Russia is not about to change back into the Soviet

Union. It is at the same time too weak militarily and too dynamic economically.

Europe's second choice would be to treat Russia as one of the two pillars of a new European order. Advocates of this policy believe Russia is too large and too ethnically diverse ever to be accommodated in the EU - irrespective of the EU's future shape. Yet, they argue, this very strength and diversity means it should not be left out in the cold.

Consequently, they believe, Moscow should be encouraged to develop a role as the focal point of a new Euro-Asian continuum, the eastern equivalent of Brussels's position as the focal point of western Europe.

Under this geo-strategic vision, countries to the west of Russia - including the Baltic republics and, perhaps even, Ukraine - would be part of the western European grouping. But all territories to the south and east of Russia - which are in the Commonwealth of Independent States - would be in Moscow's sphere of influence. This division of responsibilities is already in place to some extent, as illustrated by the discreet nature of the west's condemnation of the way Russia dealt with the Chechen revolt.

There is no need for the new Europe of the west, centred on the EU, and a new Europe of the east, centred on Moscow, simply to repeat the cold, cynical power games of the past. Russia's treatment of the less powerful states in its zone would be an important determinant of whether a healthy and confident relationship between the two

halves of Europe developed. Under this sort of arrangement, Russia would be kept at arm's length from the core of Europe - but only because it was too important to be accommodated satisfactorily by the EU. Supporters of such a structure believe Russia would be proud to be seen as one of the two pillars of a new European order, and to recover a modified version of its traditional European role.

Europe's third choice is much more positive, some would say utopian. It envisages a democratic and prosperous Russia being granted admittance in time to an enlarged loosened and modified EU.

Proponents of this course see Russia, perhaps with Turkey, constituting the outer rim of this enlarged EU. They argue that if Europe is to maximise its influence on world affairs, it needs to have Russia on board. By the same token, they say, Russia needs a close relationship with Europe and the west to act as a counterbalance to China's growing influence.

It may be that Germany is at present more willing to enhance this close relationship with Russia than the other main EU member-states.

The way in which the relationship actually develops may combine elements of all three of these possible scenarios. A more nationalistic Russia would undoubtedly once again be a force to be reckoned with in international affairs. But its influence would have to be balanced, contained and, if possible, slowly integrated by Europe. Ultimately the most decisive factor in how events unfold will be whether or not Russia remains on a democratic path.

The author is deputy director of Paris-based Institut Français des Relations Internationales. He writes here in a personal capacity.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to "line"). Translation may be available for letters written in the main international languages.

Fed-Bank of Japan accord has close parallel with past

From Dr Marc Flaudreau.

Sir, I believe that you are quite right in your editorial "Fed-Bank of Japan accord" (October 20) to draw a parallel between the recent Fed-Bank of Japan accord and central bank co-operation during the gold standard, 1880-1913.

However, contrary to what you argue, I think that the parallel should be taken quite far.

First, you oppose old rates for central bank lending in case of financial crisis, the actual record of co-operation between the Bank of France

exchange rate regime (or equivalently, gold convertibility) while current co-operation is aimed at stabilising the banking system.

But what is the justification for the Fed's action except avoiding further depreciation of the dollar in case of a collapse of Japan's banking system?

Second, while Bagehot did indeed advocate penalty rates for central bank lending in case of financial crisis, the actual record of co-operation between the Bank of France

and the Bank of England shows that short-term emergency advances were made at (or even under) market rates, and backed by government bonds (British Consols or French Rentes), very much like what would happen under the Fed-Bank of Japan scheme.

But we all know that history does not repeat itself.

Marc Flaudreau, *Observatoire Français des Conjonctures Économiques, 69 Quai d'Orsay, 75007 Paris, France*

Curate's egg Time on everyone's side

From Mr Edwin Richards.

Sir, Your leader "Real shadows" (October 20) makes the mistake that the curate's egg was good only in parts. The point of the story is that the curate's egg was totally rotten, but the curate was too afraid to point this out to the bishop.

I hope the Financial Times is not too afraid to offend the Labour party.

Edwin Richards, *47 Masbro' Road, London W14 0LU, UK*

Define please

From Mr Godfrey Chandler.

Sir, In the circular to shareholders of Lloyds Bank (concerning merger proposals) the TSB but not Lloyds is described as "a leading UK bancassurance".

As the word is not in any dictionary, could you please give me a definition?

Godfrey Chandler, *Stormont Court, Godden Green, Sevenoaks, Kent TN14 0JS, UK*

From Lord Monson.

Sir, Mr Les Robinson (Letters, October 20), writing from Brighton, is concerned that the business relationship he is developing with a company in northern France may be impeded by the hour's time difference between the two countries.

American businessmen take in their stride the hour's time difference between Chicago and Detroit, just over 200 miles away, and even the three hours' difference between Los Angeles and New York. Business across Canada and Australia cope equally well.

Surely we in Europe are robust and ingenious enough to shrug off as a very minor nuisance our own relatively modest time differences, stemming as they do from the realities of longitude, latitude and the rotation of the earth.

Monson, *House of Lords, London SW1A 0AA, UK*

From Jan R. Harrington.

Sir, I find it incredible that

Les Robinson would operate so inefficiently as to be out of touch with French colleagues due to lunch times being offset.

Do they also lose touch for eight weeks a year with holidays being offset? Surely in that area people provide constant coverage. The same is eminently possible in the regular work days. Some people can start work at 7am and end at 3pm, others can start at 11am and end at 7pm. They can take staggered lunches. All this was possible and done 25 years ago, when I was working in London in an office with flexible working hours. The time on the clock is irrelevant to co-ordinated, efficient work.

Added to the flexible working hours that existed in 1970, there are now mobile phones and laptop computers with portable fax-modems. I work in New York and have no problem in keeping in touch with colleagues in Chicago, Denver, Los Angeles and Honolulu.

Jan R. Harrington, *Box 746, New York, NY 10116, US*

New Zealand bank governor has own definition of inflation

From Mr Geoffrey Gardiner.

Sir, Peter Montagnon's update ("Bank governor passes first inflation test", October 23) on the effectiveness of "headline" and "underlying" inflationary measures taken by Dr Don Brash, the governor of the Reserve Bank of New Zealand, ignores, like all British reports, the significance of the special measure of inflation which Dr Brash uses. The only clue your readers will have had that something funny - by British standards - was going on was the small-print note at the bottom of the reserve bank's handout which you reproduced.

It reads: "Consumer prices adjusted to exclude effects of interest rate and tax changes and extraneous price shocks like sharp movements in oil prices."

UK economists no doubt expect ignorant colonialists to follow their definition of "headline" and "underlying" inflation, and would be astounded to find that Dr Brash is way ahead of them in his understanding. His contract with the New Zealand government contains his own definition of inflation. It excludes all effects of interest rate changes.

A friend in New Zealand has provided me with a videotape of a programme on Don Brash and in it he states with regard to the decision to exclude the effects of interest rate changes: "The government said no, it should not [include interest rates] because if it does you get

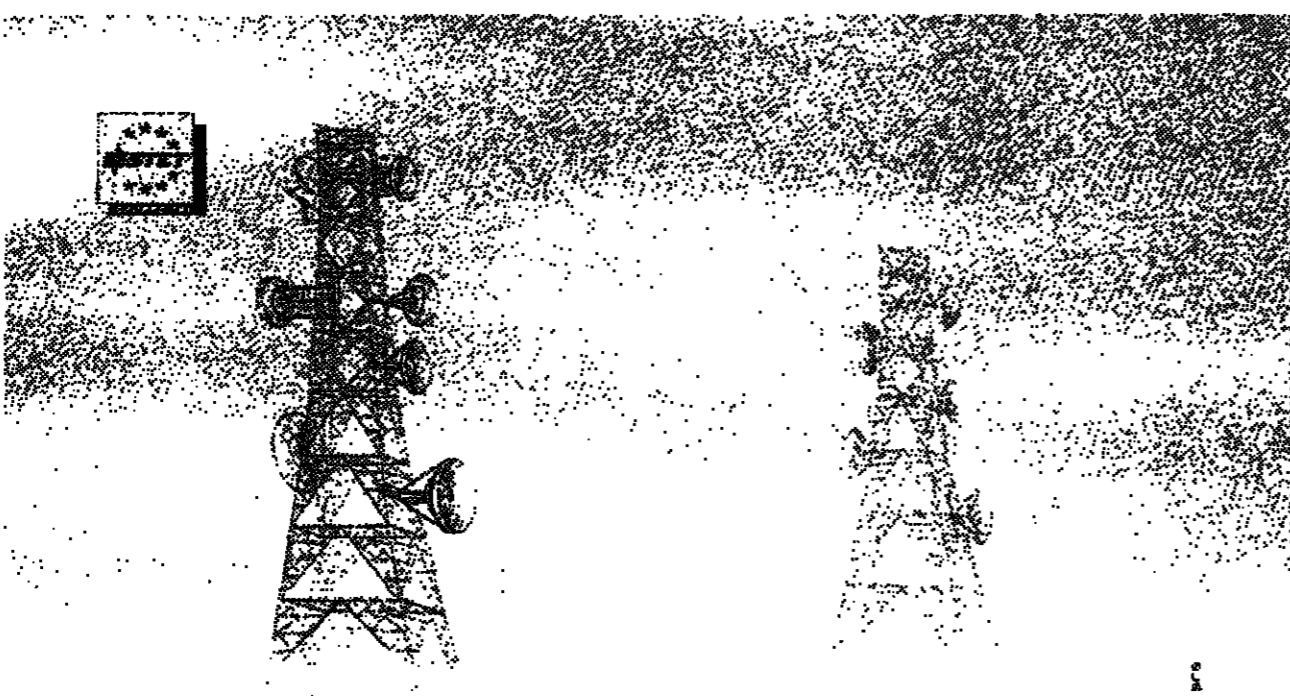
into a kind of circular reasoning situation where, because interest rates rose last quarter and therefore inflation appears to be rising, then you are forced to raise interest again and you quickly find yourself in a spiral of rising interest rates."

So Don Brash accepts that the immediate effect of a rise in interest rates is for prices to rise, an effect which any cost accountant would regard as axiomatic. If one graphs the British RPI against base rates for the period June 1988 to October 1992 the match is striking but, more important, if Don Brash's rules were applied, the 8 per cent rise and fall in the RPI in that period vanishes. In November 1993

Kenneth Clarke, the UK chancellor, estimated the effect on industrial costs of the fall in interest rates since 1990 at \$36bn, or 8 per cent of gross domestic product.

Dr Brash also rules out variations in import prices. That means that the large oil price rise in 1973 should have been ignored. Today it means that the rise in the price of newsprint should be ignored. Perhaps if Dr Brash's rules were applied, we would find that we are and have been for some time in a deflationary situation and that interest rates should have been lowered long ago.

Geoffrey Gardiner, *3 Molly Potts Close, Knutsford, Cheshire WA16 8QT, UK*



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Tuesday October 24 1995

The UN that we deserve

The foundation of the UN, whose 50th anniversary is being commemorated in New York today, coincided with the high watermark of state power. It was the product of the greatest interstate war in human history so far, during which states – democratic as well as totalitarian – had mobilised the efforts of their citizens on an unprecedented scale.

Governments had assumed enormous powers and responsibilities. Not surprisingly, they believed themselves capable of organising the postwar world, and accepted responsibility for doing so. They undertook, in the preamble to the charter, "to save succeeding generations from the scourge of war", to ensure respect for international law and "to employ international machinery for the promotion of the economic and social advancement of all peoples".

Fifty years later the limitations of state power are much better understood. Most people would now accept that economic and social advancement are more likely to be promoted by private investment and the operation of free markets than by bureaucratic machinery, whether national or international. Most states have overreached themselves in the proportion of their citizens' income they tax and spend, and are seeking to trim back rather than extend their responsibilities.

An impressive number of states did turn out to enforce international law when it was broken by Saddam Hussein five years ago. But such textbook breaches are the exception, not the rule. Most conflicts nowadays are messy affairs, fought largely between citizens of the same state. Aggressor and victim are often hard to disentangle. The scale and international implications of a crisis are seldom apparent until well after the point where it could be easily dealt with by external intervention. Not surprisingly, states are reluctant to accept responsibility for such conflicts, except when their own interests are at stake.

These facts explain what some perceive as the UN's failure. There are also secondary causes: bureaucracy, waste, corruption, incompe-

tence, appointments on the basis of national origin rather than merit, the multiplication of departments and agencies, unwillingness to abolish entities which no longer fulfil any useful role; the failure of some states to pay their dues; and the resentment of others at the dominant role played by the permanent members of the Security Council, seen as unrepresentative of the membership at large. But those failures are all within the power of member states to correct, if they could agree to do so.

The UN's "financial crisis" concerns a tiny fraction of many member states' defence budgets. Most of the specialised agencies are funded mainly from voluntary contributions, which puts responsibility squarely on the donor governments to use their funds more discriminately. The core UN functions do depend on assessed contributions, including a separately assessed peacekeeping budget, which is currently being raided to plug gaps in the regular one. Unlike its members, the UN is not allowed to borrow at all.

These problems could be solved overnight if there were the beginnings of a political consensus among members about what the UN should actually do. That consensus is lacking, partly because rich and poor countries have different priorities, but mainly because the US, the architect of the UN and still by far the richest and most powerful of its members, is afflicted by recurrent doubts about its utility.

Both the Bush and the Clinton administrations have striven to convince Congress that the UN balance serves US interests, and indeed gives good value for money by managing problems which the US cannot or does not wish to deal with unilaterally. Their success has been at best indifferent, and the present Congress seems to be moving in the opposite direction.

There is now a real danger that the UN could relapse into the sounding-board for impotent rage that it was in the 1970s. To avoid that, the rest of its members must find a way to reawaken US enthusiasm for what was, after all, pre-eminently a US invention.

Dasa restructures

It is sometimes argued that Daimler-Benz Aerospace (Dasa), Daimler's arms and aircraft subsidiary, has made the fundamental error of competing in a dollar-based business with D-Mark costs.

Yet other German businesses – including the machine-tool industry and Daimler's own Mercedes cars – have successfully competed in dollar markets. In so far as Dasa's problems are those of cost, yesterday's restructuring announcement is a first step towards addressing them.

In reality, Dasa's problems go deeper, back to the company's origins in the 1960s. Dasa came into being as a match between Daimler's interest in diversifying out of cars and trucks and the perceived public interest in creating a national champion in aerospace.

Both aspects of this bargain were flawed. Daimler underesti-

mated the costs of diversification, and the threat this would pose to maintaining its leadership in cars. And the close governmental involvement in creating Dasa was a barrier to the harsh decisions needed to make it competitive.

Mr Jürgen Schrempf, Daimler's new boss, is now facing up to those issues. For his strategy to succeed, however, the company – and the country – will have to overcome its ambivalence about the military side of the business. The civil aviation side will need to find solutions for its commercially unsatisfactory affiliates. Airbus and Fokker. And Dasa must find fresh comparative advantages in aerospace, to make up for the absence of the quality edge Germany has in machine tools or luxury cars. Yesterday's restructuring is indeed a first step: there are many more to follow.

Lottery loot

It is a mystery that ordinary people and politicians still have such high hopes for the UK National Lottery. For individuals, the chance of winning the jackpot is so small as to make buying a ticket frankly irrational. For ministers, it is certain that the process of doling out dollops of lottery cash to selected worthy causes will embroil them in controversy. If a better way of distributing funds is not found soon, the lottery could prove unsustainable.

Yesterday's announcement of the first charities chosen to receive lottery money highlights the fact that, under the present system, almost any award is capable of triggering a row. The problem is common to all of the categories chosen to receive money – charities, arts, sport and the Millennium Fund.

In each case, the question of the appropriate size and geographical distribution of the awards is unresolved. In setting up panels to award the money, the government sidestepped the question of whether money should go to large, national projects or small, regional ones. That leaves big projects open to attack on the grounds of elitism, while small ones are liable to be mocked for their apparent whimsicality.

Charities, perhaps, are less controversial than the other categories since they are perceived by definition to be worthy causes. But the choice of themes – environmental, community aid and so on – is still questioned by many. Medical charities, which claim to have seen sharp drops in donations since the lottery started, have bid successfully for a slice of

the cake, but may ask for more. The heart of the problem is that the lottery is a scheme for redistributing amounts of money, collected in part from some of the poorest people in the UK. The panels in charge of the awards could avoid controversy only if they had a strong claim to legitimacy, derived from public support. The great and good who now make the decisions cannot make that claim. It is worth investigating whether the panels' decisions could be bolstered by public votes. For example, punters could be asked to indicate preferences when buying a ticket. However, this would be useful only to select broad categories of project. It would be impossible to provide detailed information on the competing applications for funds; the charities section alone has received 15,000 requests.

The only effective solution is to introduce much more transparency into the decision making, possibly through more public meetings. The panels also need to find ways to allow people to make their views known.

Inevitably, such a process would be the target of intense lobbying, in which the best funded and best organised groups would be able to exert more influence than smaller ones. But lobbying already happens behind closed doors, bringing decisions into the open is the only way to give the panels the legitimacy they currently lack.

Such measures would not automatically eradicate public unease. But without them, controversy over the disbursement of money may well undermine the lottery itself.

The caustic verdict of one senior Japanese government official on the chaotic events at Daiwa Bank in the past month sums up the wishful thinking of many in Japan's financial community: "Yogapari, Daiwa," he says – "typical Daiwa".

The \$1.1bn loss from unauthorised bond dealing at Daiwa's New York branch, and subsequent attempts to cover it up, were – according to this establishment view – an isolated case, attributable to determined criminal activity by one rogue trader and uniquely lax management. The case holds no lessons for the rest of Japan's banking sector, the argument goes.

But as more details of the Daiwa affair seep out, that judgment looks increasingly suspect. The reaction of Daiwa's management and the Japanese regulators to the discovery of the losses reflects an institutional approach – emphasising the importance of stability rather than the need for openness – that dominates most of Japanese business and society.

It is an approach that is causing increasing nervousness among international bankers, who have not embraced the "typical Daiwa" thesis. Since the revelation of Daiwa's losses, the Japanese banks have faced a sharp rise in the cost of the funds they raise in international money markets – up to 0.6 percentage points over market rates. Many are seeing credit lines trimmed, and for a growing number of Japanese banks borrowing rates in US dollars are now greater than the rates at which they lend.

The fear is not that there is a dealer such as Daiwa's Mr Toshitaka Iguchi in every Japanese bank's dealing room; the events of the past couple of years have demonstrated that the predations of the rogue trader – at Barings, Kidder Peabody and elsewhere – are not confined to Japanese institutions.

The concern is rather that the Japanese institutional tendency towards secrecy may now be disguising greater problems even than those at Daiwa. When Japan's economy was growing strongly in the 1970s and 1980s, the strategy was not an issue. But the economy's problems have visibly proliferated in the past five years, and the scale of the invisible problems is a frightening unknown for foreign bankers.

Rather than come clean immediately, Daiwa attempted to cover up its losses, according to both Mr Iguchi and Mr Hiroyuki Yamaji, who resigned as managing director earlier this month. The bank was anxious to maintain stability and to avoid causing "confusion" in domestic and international markets. Worse still, the Japanese Ministry of Finance also took what can most generously be described as a

Hidden behind a screen of stability

The cover-up of Daiwa's losses reflects a wider problem in Japan's business culture, says Gerard Baker

relaxed approach to disclosure of the problems.

Japanese government officials now say that Daiwa's management has been disguising losses for years – not just at the bank's main New York branch but also similar, though smaller, losses at another Daiwa office in New York.

Even when Daiwa's top management learned of the fraud, they sat on it. The bank's former president, Mr Akira Fujita, who resigned last week, received notification of the losses on July 24. But it was not until September 18 – eight weeks later – that he informed the US Federal Reserve, the regulator principally responsible for supervising the bank's New York operations. In US (though not in Japanese) law such a delay could be considered a criminal offence.

And last week Mr Iguchi, the trader at the centre of the storm, alleged that the bank's senior management had actually asked him to continue the deception after he had told them about the losses. Initially, the reaction of Japan's ministry of finance was cutting. It said Daiwa's failure to report the loss for an eight-week period was deeply disturbing. The bank had failed to abide by firm guidelines on disclosure. "Daiwa is going to face severe punishment," one zealous official said.

But it soon became clear that Daiwa's cynicism about the losses was almost matched by the finance ministry's. The official responsible for banking supervision at the ministry was told of the losses in early August. His reaction? Rather than telling the US authorities immediately, he instructed Daiwa to investigate and then report back with the details. He did not bother to chase up Daiwa executives in the next six weeks.

Daiwa raised funds during this period. According to one Japanese banker it dealt with, Daiwa was more active than ever before. This has raised suspicions among international bankers that Daiwa was using the six-week breathing space to raise money because it anticipated that the cost would rise once the New York losses were made public, although Daiwa denies any deliberate attempt to gain advan-



tage from its inside knowledge. US officials are said to be shocked by the ministry's inaction. But that same lack of openness is typical of Japan's entire financial system.

For example, the Japanese banks refused for years to admit the scale of their losses on property loans made in the late 1980s. By the early 1990s many loans had turned sour, with a consequent mountain of bad loans for the banks.

It was only in 1993 that they were first required to disclose a small proportion of their non-performing assets. Even now, the ministry officially estimates that bad loans total

about ¥40,000bn (\$263.8bn) – about half the level most independent analysts believe it to be.

It also remains the case that banks can hide their problems in affiliated companies. Under arcane accounting rules, banks do not have to declare any results for many of their affiliates, which consequently provide them with the perfect vehicle for concealment.

As Ms Alicia Ogawa, analyst at Solomon Brothers in Tokyo, puts it: "You can look at the figures for a bank and they may seem perfectly healthy. But what the investor can't see is that all the problems have

been moved to affiliates, and there's no way of knowing."

The problem is illustrated by the case of Hyogo Bank, one of the handful of institutions that collapsed this summer. The regional bank, which is based in Kobe, is a publicly quoted company. Its last financial reports for the year to the end of March showed its balance sheet to be only slightly weaker than the average Japanese bank. Its bad loans as a proportion of total lending – 2.2 per cent – were slightly higher than average, but nothing out of the ordinary.

In August, just five months later, Hyogo collapsed. Its real, consolidated books revealed bad loans of at least ¥680bn, more than 10 times the figure stated in March, or 25 per cent of its total loans. The last official financial statements bore no relation to the true state of health of the bank, which had simply been swamped by the problems at its affiliate companies.

In other countries, such lack of disclosure would lead to a shareholder revolt and a flight from the company's equity. Last week a small group of individual shareholders did announce that they were considering suing Daiwa's management. But it is unlikely to force radical change. Most Japanese banks' shares are not held by institutions for investment reasons, to secure a financial return. They are owned by companies which enjoy a long-term relationship with the banks. It is hardly surprising that such shareholders – some estimates say they own up to 80 per cent of bank shares – do not force banks to reveal the unpleasant truth. Since they are more concerned about their long-term relationship with the banks, they have a vested interest in stability.

Thus Japan's banks still operate under fundamentally different rules from those in the US, the UK and most of continental Europe. And the regulator, the finance ministry, enforces the rules in the broader interests of the stability of the financial system as a whole, not in the interests of the investor.

Similar rules apply to most Japanese companies. But while others may be unperturbed by the lack of disclosure, Japanese banks need to be able to raise funds on the international money markets. Their lenders, the other international banks, are becoming impatient with being kept in the dark about the stability of the banks they lend to.

As one analyst in Tokyo puts it: "If people stopped lending to Japanese banks, one third of the country's financial system would disappear in a week. The authorities can no longer do it their way. They can no longer pretend it's their own little market."

The UK has little to gain in return for allowing greater US access to Heathrow, says Michael Skapinker

Stuck on the ground

When George Bernard Shaw described the UK and the US as two countries divided by a common language, it was English he had in mind rather than the language of free trade.

But a striking feature of last week's collapse of UK-US air talks is the level of mutual incomprehension that arises when the two countries talk about how to liberalise aviation. Each sees itself as a champion of free trade, confronted by a nation obstinately refusing to open its aviation market.

Last week's talks in Washington collapsed when the US rejected as inadequate a UK offer to allow some increase in US carriers' access to London's Heathrow airport. Britain, on the other hand, complained the US had refused UK airlines the right to bid freely for contracts to transport US civil servants. US airlines can bid freely for UK government contracts.

The US is desperate to win greater access to Heathrow for its carriers. Heathrow is the busiest international air hub, providing transfers between flights to travellers from all over the world. The US is convinced the UK is refusing fur-

ther access as a means of protecting the interests of British Airways.

The UK, on the other hand, sees the vast US domestic market as being closed to its airlines. US carriers, in the UK's view, can use their connections from hundreds of American towns and cities to bring passengers to larger airports, from where they can be transported across the Atlantic – an opportunity denied to UK carriers which are only permitted to fly to the larger US "gateway" cities.

Even if they were permitted to challenge US airlines on the smaller routes, UK carriers would find the cost of setting up American networks prohibitive. The UK's long-term aim is for its airlines to have the right to buy bigger stakes in US carriers. US law restricts foreign ownership of US airlines to 25 per cent, whereas European Union regulations allow non-EU ownership of up to 50 per cent.

At the root of US dissatisfaction is the bilateral aviation agreement known as Bermuda II. Its predecessor, Bermuda I, was agreed in 1946

and named after the island on which it was negotiated. In 1976, the UK renounced it on the grounds that it gave US carriers too big a share of the transatlantic market.

Bermuda II, agreed a year later, was recently described by Mr Gerald Greenwald, chairman of United Airlines, as "the worst mistake in

the history of US international aviation negotiations".

Mr Greenwald believes the basic error the US made was agreeing to surrender rights to carry traffic beyond London. He told a US Senate committee earlier this year that before Bermuda II, US airlines could carry local traffic between London and 40 further points. Today, US airlines can fly onward from Lon-

don to 11 cities. BA, he said, has used its rights to develop a huge international network, establishing a hub at Heathrow which US carriers are powerless to challenge.

Mr Greenwald is undoubtedly right in seeing restrictions at Heathrow as being used to underpin BA's power, although the airline's improvements in service, efficiency and marketing since its privatisation in 1987 have played an important role too.

The UK government argues, however, that opportunities for opening Heathrow to other airlines are limited. The airport is severely congested, with few new arrival and departure slots even for UK airlines, such as Virgin Atlantic. A proposed fifth Heathrow terminal would not improve the situation substantially as it would merely allow airlines to fly more passengers to and from the airport on each aircraft. Only a small increase in the actual number of flights is envisaged.

Sir George Young, UK transport secretary, said last month that even if there were room to increase US

access to Heathrow, the UK would expect something in return. He said: "Everyone has to realise that this is a two-way street."

A difficulty for the US is that, for the moment, the UK is reasonably happy with the status quo. Although it would like greater access to US government business for UK carriers, it has not recently pressed for foreigners to be allowed to own larger shares in US airlines.

BA, which owns 24.6 per cent of USAir, is not at present asking for more. Indeed, USAir has had severe financial difficulties and is in talks with United and American Airlines about a possible takeover. This could have implications for the size of BA's stake. Until USAir's status is resolved, there will be little incentive for the UK to trade increased Heathrow access for greater ownership of US airlines.

Several US airlines recognise that, until then, the UK's limited offer of additional flights to Heathrow will be the best available. Earlier this year, Mr Robert Crandall, American's chairman, was asked why the UK should concede much to the US when it wanted so little in return. He replied: "You've understood the situation exactly."

OBSERVER

Third man in Vienna

Bank mergers are all the rage these days. So Observer is distressed to hear that Bank Austria, Austria's biggest bank, is having such difficulty getting GiroCredit, Austria's third largest, to bend to its will.

Ever since a majority stake in Giro was acquired by Bank Austria's controlling shareholder, a city of Vienna foundation, the two sides have been bickering. Gerhard Randa, the Harley Davidson biker running Bank Austria, complained publicly a couple of weeks ago that Giro was dragging its feet on integrating the two banks' foreign offices. Giro officials, who were trying to drum up support for a Schöbn capital injection, were annoyed by this intervention and accused Randa of being in a rush only because his New York and London branches were doing badly while Giro's were doing well.

Bad blood comes naturally to these two. Giro, traditionally a "black" (Conservative) institution, was far from thrilled when the "red" (Socialist) city of Vienna, on Randa's recommendation, upped its stake to 56 per cent last year. The city in turn was dismayed when Giro passed its dividend, which meant that it had to dig deeper into its own pockets to service the loan it took out to buy the Giro shares. Bank Austria has swallowed

Giro's investment banking and fund management activities, and Giro is increasingly worried that there soon won't be much left. Hence, Giro's minority shareholders, Austria's 76 savings banks, are being teased on to block Randa's grand ambitions. Giro chief executive Herbert Egmayer and Randa, former colleagues at Vienna's old Zentralsparkasse, plan to thrash the matter out today.

Grecian earnings

George Anomeritis, the retired banker who was recently recalled to office as an undersecretary at Greece's economy ministry, has a lot of time at his fingertips. In his new job he's in charge of disbursing some €150m of EU taxpayers' cash, in the form of aid to Greece. It's for building motorways, improving ports and generally helping Greece catch up with its richer EU partners.

Let's hope he enjoys better luck than when he ran the National Mortgage Bank, the state housing bank, in the 1980s. The NMB's US outpost then ran into a slight problem. It didn't have a banking licence, which sadly didn't prevent it accepting dollar deposits from Greek-Americans, keen to take advantage of high interest rates in Greece. It's thought that some \$700m sloshed to and fro, over NMB's US counters. The bank had to pay an \$8m fine; its employees in the US were deported.

Anomeritis resigned before that scandal broke. Later he was formally charged in an Athens court of bailing out one of NMB's debtors on too-favourable terms, though in 1991 the court acquitted him.

Totally innocent

Someone ought to tell Orleir Cameli, governor of Brazil's state of Acre, about the fifth amendment. He's in deep trouble with the authorities, but is doing a fine job of digging himself in deeper. He's facing investigations on allegations of corruption, drug trafficking and even – crazy though it sounds – for trying to sell half of Acre to Colombia.

In an interview with O Globo newspaper yesterday, Cameli was asked about charges he faces, of using slave labour and of taking timber from Indian reserves.

He said he didn't pay salaries, because people in Acre preferred the barter system. As for the timber, it wasn't him who cut the trees on land belonging to the Kampa Indians; he just "took away" trucks that had already been felled by another farmer. Well, that's all right then.

Wondermobile

Is there no end to what the Germans will do to rekindle the good old days of unbridled,

1950s-style economic growth? Days after Chancellor Helmut Kohl was urging them to take more risks in a bid to revive the *Wirtschaftswunder*, Rewe, one of the country's biggest supermarket chains, has launched a special bargain week, which, in a deeply clever, punning fashion, it's calling... *Wirtschafts Wunder Woche*.

Topping the bill is the VW Beetle – imported from Mexico. Rewe has shipped over about 300 and is selling them for the knockdown price of DM16,666. While VW dealers are furious that supermarkets are now selling Beetles, the slowness with which they're going out the door suggests things were indeed better in the 1950s.

Cracked spine

Good grief. Things have come to such a pass in Australian health care that trainee nurses at northern Queensland state's Griffith University are going to be given novels, poetry and music to help them learn about death and loss.

It seems that in the high-tech operating theatres and wards of contemporary medical practice, nurses are losing touch with their – and other people's – feelings. By reading novels such as *Wuthering Heights*, the university hopes the nurses will learn compassion. Whatever next? *War and Peace* for trainee soldiers?

Financial Times

100 years ago

Ultimatum to Venezuela
The friction that has long been noticeable between Great Britain and Venezuela has at length culminated in an ultimatum from Lord Salisbury to President Crespo. We want redress for the wrongful arrest of British police by the Venezuelan officials, and after that, we want the miserable boundary question settled and done with. As yet the Venezuelan President has not seen fit to reply, but it is to be hoped that he will not put us to the troublesome formula of directing attention to our Note with the guns of a cruiser. That a Government should be hot-headed is excusable in such a blustering country, but we cannot afford to allow ourselves to be insulted with impunity, even by the brave and unscrupulous Venezuelans.

British companies in China
Several British companies in Shanghai will be affected by China's new company law, according to the interpretation of the law in Chungking legal circles. The companies concerned are Shanghai Waterworks, Shanghai Electric Construction and Shanghai Gas Company.

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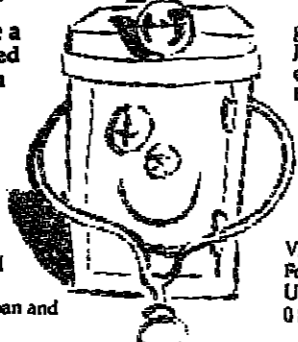
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INTERNATIONAL COMPANIES AND FINANCE

Big US oil groups exceed expectations for quarter

By Christopher Parkes
in Los Angeles

Third-quarter results from leading US oil groups yesterday comfortably exceeded the most optimistic analysts' forecasts.

Exxon's net earnings jumped 30 per cent to a record \$1.5bn for the traditionally quiet summer season. Mobil was 41 per cent ahead at the operating level, while net income was up more than 50 per cent at \$786m before adjustment for special charges, write-downs and a one-off boost from a favourable court settlement.

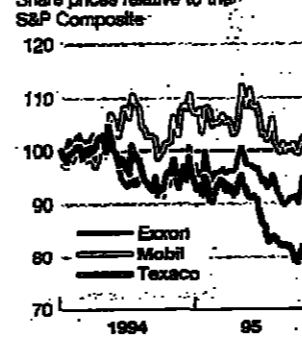
Mr Laurence Fuller, Amoco chairman, said the group's 35 per cent advance in consolidated earnings to \$593m, or \$1.31 a share, was a strong performance in the face of lower energy prices.

Shell Oil, the US unit of the Royal Dutch/Shell group which is collaborating with Amoco in a cost-sharing agreement involving certain production and exploration assets in Texas and New Mexico, hailed a 33 per cent increase in fully-adjusted net earnings to \$431m as the best third-quarter result in eight years.

Even Arco, which some analysts had expected to suffer from weaker chemicals markets, exceeded forecasts with net earnings of \$315m, or \$1.93 a share. Although down on the

US oil stocks

Share prices relative to the S&P Composite



Source: FT Estimates

comparable quarter of last year when profits rose to \$435m, or \$2.67 a share, due to extraordinary income of \$200m - Arco's nine-month earnings of \$1bn against \$806m last time were the highest in five years.

Texaco, which has recently completed the sale of its interests in chemicals, reported more modest progress, with total net income up from \$381m at \$238m.

One important factor behind the sector's strong results appeared to be a better-than-expected performance from the groups' chemicals operations, which many analysts had expected to dip under the influence of the traditional summer lull in Europe. However, some companies reported weakening prices for certain commodity

chemicals as the quarter progressed, and all noted weaker worldwide crude prices.

Mr Lee Raymond, Exxon chairman, said operating performance improved in all business sectors. Refining and marketing earnings rose because of better volume sales of petroleum products and higher margins in the US and Europe. Weaker prices for crude and natural gas in the US and Canada were largely offset by higher volumes and better prices in Europe.

Profits from chemicals were more than double those in the comparable 1994 period, "although product prices weakened as the quarter progressed", Mr Raymond said. Exxon's net income per share was \$1.20, against 92 cents last time.

Mr Lucio Noto, Mobil chairman, said the third-quarter improvement, which raised earnings per share to an estimated \$1.95 compared with \$1.23 last year, stemmed from "significantly higher" profits from downstream petroleum and chemicals. Although industry refining margins narrowed, Mobil's earnings from domestic and foreign marketing and refining increased "substantially", he added.

Mobil, which is benefiting from continued cost-cutting, said a seasonal lull in US demand for petrol also helped.

Union Carbide rises sharply in term but warns on prices

By Tony Jackson
in New York

Union Carbide, the US chemical producer, reported a trebling of net income to \$75m, or \$1.77 a share, in the third quarter, but said prices of polyethylene, one of its main products, had weakened since the second quarter. At the same time, higher raw material prices reduced margins in specialty chemicals.

The apparent peaking of the cycle in petrochemicals was also stressed by Lyondell, a large producer of bulk petrochemicals, and by several US oil companies reporting yesterday.

Lyondell, which increased its third-quarter earnings by 51 per cent year-on-year to \$100m, said petrochemical earnings were down from the strong levels of the second quarter because of lower margins and volumes, and warned of continued market weakness in the fourth quarter.

For the first time, Union Carbide divided its results under two headings: basic chemicals and polymers, and specialties and intermediates.

It said that since specialties and intermediates, which comprised 69 per cent of group sales and 62 per cent of operating profit in the first nine months, were less cyclical than commodity chemicals, splitting them off would give a clearer picture of the effects of the chemicals cycle.

In the third quarter, sales of basic chemicals rose 53 per cent to \$565m and operating profits increased from \$2m to \$121m. The company said weakness in polyethylene was more than offset by strong prices for its other main commodity products, ethylene oxide and ethylene glycol.

While sales of specialty chemicals climbed 10 per cent in the quarter to \$1,010m, profits fell 21 per cent to \$115m. The company said this was due to higher prices for raw materials, including ethylene oxide.

For the first nine months of the year, basic chemicals made profits of \$328m, on sales up 61 per cent at \$1,600m, while specialties increased profits by 13 per cent to \$322m, on sales up 16 per cent at \$2.7bn.

Historic data published yesterday showed that in the four years 1991-94, basic chemicals made a cumulative loss of \$390m, while specialties made a \$1.6bn profit.

Profits from the disposal of the remaining interest in UGAR, the company's joint venture in graphite electrodes, added 63 cents a share to earnings, partly offset by a charge of 31 cents a share for post-employment benefits. Excluding those factors, earnings were up 154 per cent at \$1.45 a share.

Revenues up by 13% at MCI

By Tony Jackson in New York

MCI, the second-largest US long-distance telephone company, maintained its reputation for rapid growth with a 13 per cent jump in revenues to \$3.5bn for the third quarter. This was almost twice the growth rate in telephone services announced last week by its larger rival, AT&T.

Excluding special charges, net income rose 25 per cent to \$275m. Earnings per share, depressed by the issue of shares to British Telecommunications a year ago, were up 5 per cent at 40 cents.

As previously announced, there were charges of \$831m in the quarter, made up chiefly of \$216m for the shedding of 3,000 workers and a \$620m write-down of assets.

The net result was a loss of \$240m for the quarter, or 35 cents a share.

Call traffic was up 19 per cent, the highest increase for four years. Mr Douglas Maine, chief financial officer, said this was well ahead of growth in the market overall.

The gap of 6 percentage points between traffic and revenue growth was attributed mainly to volume discounts and promotions associated with the Friends and Family programme, a weapon in MCI's fight for market share. Mr Maine expects the gap to narrow in the final quarter as a result of price rises.

"The old game of grabbing every half-point of share from our competitors is diminishing in importance," he said. The market was now driven more

by new applications and changes in consumer behaviour, such as credit card payments by phone.

International business traffic was up 54 per cent, Mr Maine said, three times the industry average. Revenue from data transmission rose 34 per cent. The Concert joint venture with BT in international business telephony was mainly responsible for an underlying \$21m share in losses by affiliates.

Mr Maine warned that the fourth quarter would include the Nationwide Cellular acquisition for the first time and would bear the cost of expanding the group's cellular network. However, he said: "It's been a very good year for the company, and we're looking for a strong close in the fourth quarter."

AMERICAS NEWS DIGEST

Surprise turnaround at Data General

Data General unexpectedly turned losses into a modest profit in its fourth fiscal quarter, helping shares in the US computer maker to rise 10 per cent to \$124 in mid-session yesterday. Net income for the quarter ended September 30 was \$1.5m, or 4 cents a share, compared with a net loss of \$6.2m, or 17 cents, a year earlier. Revenues for the quarter increased 7 per cent to \$312.8m.

Data General also announced a new range of products based on Intel technology, a switch from the Motorola microprocessors that the company has used to date. Intel will supply ready-made circuit boards for the new computers.

For its full year, Data General reported a net loss of \$48.7m, or \$1.23 a share. The results included a restructuring charge of \$43m which was offset by a gain of \$44.5m from the settlement of a software copyright and trade secret lawsuit against Northrop Grumman. In fiscal 1994, the company reported a net loss of \$97.7m, or \$2.45, including a restructuring charge of \$35m. Revenues for fiscal 1995 were \$1.16bn, against \$1.12bn previously.

Louise Kehoe, San Francisco

Inco bounces back to black

Inco of Canada, the world's biggest nickel producer, saw a turnaround in third-quarter results because of higher metal prices and shipments and a better performance in its alloys and engineered products businesses. Net profit was US\$43.6m, or 33 cents a share, against a loss of \$1m, or 2 cents, a year earlier, on revenues of \$630m against \$603m.

Nine-month earnings were \$165.2m, or \$1.37, against a loss of \$75.8m, or 68 cents, on revenues of US\$2.56bn against US\$1.72bn. The third quarter is normally the lowest for production because of holidays and maintenance shutdowns in the Canadian mines, but this year results were also affected by start-up and equipment problems at 58 per cent-owned P. T. International Nickel Indonesia.

At September 30, Inco's total debt was US\$908m against \$993m at December 31 1994, and the debt to equity ratio was 33:67.

Robert Gibbons, Montreal

GE appoints vice-chairman

General Electric, the US industrial conglomerate, has appointed as vice-chairman Mr John Opie, the head of its lighting business. Mr Opie will join the three-man corporate executive office at the head of the company, along with Mr Jack Welch, chairman, and Mr Paolo Fresco, also vice-chairman. He replaces Mr Frank Doyle, who has reached retirement age.

Mr Opie has been with GE for 34 years. He has been in charge of the lighting division since 1986, and is credited with expanding its US base into international markets, partly through acquisitions such as Tungsten in Hungary and the Thorn lighting business in the UK.

The move is likely to focus interest on the succession to Mr Welch, 58, who had heart surgery earlier this year. Mr Welch has brushed off suggestions of retirement, which does not fall due until he is 65. Mr Opie, 57, is not seen as a likely successor because of his age.

Tony Jackson, New York

Rhône-Poulenc Rorer lifts sales

Rhône-Poulenc Rorer, the US-based pharmaceuticals arm of the French chemicals group, registered a 7 per cent increase in revenues in the latest quarter, to \$1.2bn, largely on the back of an 8.5 per cent advance in US sales.

Separately, Mr Jean-Rénaud Fourton, chairman of Rhône-Poulenc, said the group had no plans to buy the 32 per cent of the company it did not already own.

With its research and development spending rising 24 per cent to \$190m in the latest quarter, Rhône-Poulenc Rorer's operating income remained virtually flat at \$182m. Higher interest costs were almost exactly matched by a lower tax charge.

Net income slipped slightly to \$107m from a year earlier, while earnings per share remained flat at 80 cents.

Richard Waters, New York

Genentech posts 20% increase

Genentech, the US biotechnology company, recorded a 20 per cent increase in after-tax profits to \$40m in the third quarter, on a 16 per cent rise in revenues to \$224m. Earnings per share were 33 cents, up from 28 cents.

Sales of Activase, a cardiovascular drug, rose 12 per cent to \$73m, while revenues from Pulmozyme, a treatment for cystic fibrosis, climbed 43 per cent to \$30m after receiving regulatory approval in Europe. Sales of Genentech's two growth hormones, however, remained flat at \$54m, and the company warned that competition from newcomers could hit sales in future. The company is currently fighting in the courts to defend its patents against two of these potential competitors.

Richard Waters

Solid gains at Kimberly-Clark

Price increases on its paper products, volume growth and a one-off gain from the sale of a business enabled Kimberly-Clark to report a 48 per cent increase in earnings per share in the latest quarter, to \$1.30.

Net income rose to \$309m, on sales of \$2.2bn, from \$142m on sales of \$1.8bn the year before. Half the sales growth came from volume increases, with the rest stemming from higher selling prices for tissue, pulp and newsprint. This helped lift the operating profit margin by more than two percentage points, to 12.7 per cent. The sale of an 80 per cent interest in an airline business contributed \$40m, or 25 cents a share, to the latest results. Kimberly-Clark added that it expected to take a one-off charge on the completion of its merger with Scott Paper in the current quarter.

Richard Waters

NORTHERN ROCK BUILDING SOCIETY

\$100,000,000
Floating rate notes 1996

Notice is hereby given that for the interest period from 20 October 1995 to 22 January 1996 the notes will carry an interest rate of 6.3375% per annum. Interest payable on 22 January 1996 will amount to \$178.18 per \$100,000 note and \$1,781.75 per \$100,000 note.

Agent: Morgan Guaranty Trust Company

JPMorgan

ALLIANCE LEICESTER

Alliance & Leicester Building Society
£150,000,000
Floating Rate Notes

Due 1996
For the interest period 19th October, 1995 to 19th January, 1996, the notes will carry a Rate of Interest of 6.8125 per cent. per annum with interest amounts of £171.34 per £100,000 principal and £1,713.43 per £1,000,000 principal payable on 19th January, 1996. Listed on the London Stock Exchange.

Bankers Trust Company, London, Agent Bank

This notice is issued in compliance with the requirements of The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited (the "London Stock Exchange"). Application has been made to the London Stock Exchange for admission to the Official List of the undermentioned securities.

New Issue

24th October 1995



Abbey National plc

(Incorporated with limited liability in England and Wales under the Companies Act 1985)

\$200,000,000 10% per cent. Exchangeable Capital Securities,
exchangeable into 200,000,000 10% per cent.

Non-cumulative Sterling Preference Shares of \$1 each
and

100,000,000 10% per cent.

Non-cumulative Sterling Preference Shares of \$1 each

Copies of the listing particulars may be obtained (for collection only) during normal business hours until 25th October 1995 from the Company Announcements Office, the London Stock Exchange, London Stock Exchange Tower, Capel Court Entrance off Bartholomew Lane, London EC2N 1HP and until 6th November 1995 (Saturdays and public holidays excepted) from Abbey National plc, Abbey House, Baker Street, London NW1 6XL and Bankers Trust Company, 1 Appold Street, Broadgate, London EC2A 2HE and

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مكتبة الأصيل

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An ordinary family.

At every stage of life, our products have an important part to play for each of these individuals.

Diapers to keep little Emily dry. Incontinence pads that make grandpa's life more dignified. The toilet paper that we all take for granted. The box that Junior's go-cart came in. The magazines that dad subscribes to. Kitchen rolls, that are a godsend (according to mum). Not to mention sanitary towels. And so on.

Nature's own ingenious building material – millimeter long wood fibers from our Swedish forests – provides the platform on which SCA's international USD 10 billion business has been built.

94 percent of the material used in our products originates from wood. We use

equal proportions of fresh and recycled fiber in our products.

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Products which give our customers higher productivity, product quality and product safety. Not to mention, a higher quality of life.



We add value to fiber

SVENSKA CELLULOSA AKTIEBOLAGET SCA (publ)
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Phone: +46 8 788 51 00. Internet: www.sca.se

SCA's activities are conducted through three separate business areas: Hygiene Products, Packaging and Graphic Paper. Backing the business areas are the Group's vast resources for raw material supply. SCA's main markets are in Europe. The Group is active in some 20 countries and has 35,000 employees. The SCA share is listed on the stock exchanges in Stockholm and London.



Abridged Interim results and dividend announcement

for the six months ended 30 September 1995 (unaudited)

(R million)	Six months ended 30.9.95	Six months ended 30.9.94	Year ended 31.3.95
Investment income	156	202	346
Interest earned	31	23	46
Surplus on realisation of investments	107	109	207
	294	334	599
Administration expenses	4	5	7
Cost of prospecting	11	12	26
Grants - educational and welfare	5	5	7
	20	22	40
Net income before taxation	274	312	559
Taxation	9	2	11
Attributable earnings	265	310	548
Retained earnings of associated companies	(1)	(2)	-
Total earnings	264	308	548
Earnings per share - cents including surplus on realisation of investments	1 091	1 278	2 269
Excluding surplus on realisation of investments	649	823	1 413
Dividends per share - cents	640	800	1 400

DIVIDEND: Dividend No. 95 of 640 cents per share has been declared payable on Friday, 15 December 1995 to shareholders registered at the close of business on Friday, 10 November 1995. The register of members will be closed from Saturday, 11 November 1995 to Saturday, 18 November 1995. The full conditions relating to the dividend may be inspected at the Head Office and London Office of the company and at the offices of its transfer secretaries.

Copies of the full interim results are available from the Johannesburg and London Offices.

Head Office
44 Main Street
Johannesburg 2001
23 October 1995



London Office
19 Charterhouse Street
London EC1N 6QP

APPOINTMENTS

INVESTMENT BANKING

This leading international financial company requires an individual who combines technical (mobile telephone) and management expertise to be responsible for analysis of corporate accounts, data and market information relating to telecommunications industry, with emphasis on mobile telephony and valuation analysis for telecommunications worldwide. Incumbent must have sound understanding of European analysis tools and techniques, industry and market analysis, corporate strategy formulation, and have corporate contacts within telecommunications companies; knowledge of telecoms market issues and be familiar with analysis of comparable industry companies transactions, valuations and corporate structures. Salary negotiable. Applicants aged 30-35, educated to Masters degree or equivalent, fluent in French and German in addition to English, with minimum 5 years relevant business experience and preferably a multinational background should write, in strict confidence, enclosing full CV to: Box A5777, Financial Times, One Southwark Bridge, London SE1 9HL.

LEGAL NOTICES

NOTICE OF APPOINTMENT OF JOINT ADMINISTRATIVE RECEIVERS
Name of company: Easton (Manchester) Limited
Registered number: 009481 Trading name(s): Easton (Manchester) Limited. Nature of business: Clothing manufacturer. Trade classification: 08.
Date of appointment of administrative receivers: 13th October 1995. Name of person appointing administrative receivers: Chase Finance Plc Limited.
A M MENZIES AND N TOMES
Joint Administrative Receivers
Office holders numbers 0053 and 7630
Address: Robert Black, Centre City Tower, 7 Hill Street, Birmingham B5 4JU

INTERNATIONAL COMPANIES AND FINANCE

Banacci lifts operating profit 12%

By Daniel Dombey
in Mexico City

Banamex-Accival (Banacci), Mexico's largest banking group, reported third-quarter operating profits of 724m pesos (\$108.4m), up 12 per cent on the previous quarter.

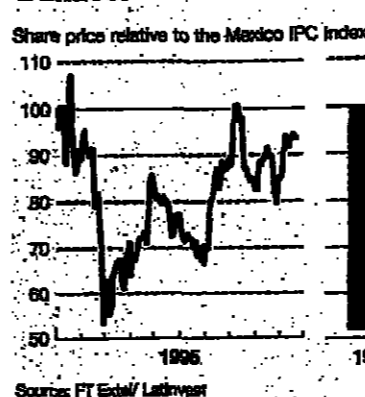
The improvement comes despite a decline in the net interest income margins of Banco Nacional de México (Banamex), the group's main subsidiary.

The bank more than made up for the shortfall by writing back provisions for loan losses, although it stressed it would continue its conservative approach.

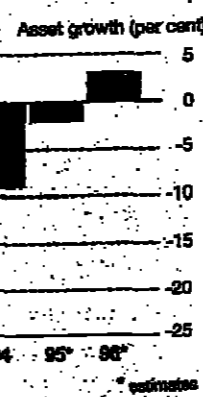
Banamex also helped its bottom line by generating 71m pesos in foreign exchange and securities trading income. However, the bank said the figure was halved after tax.

Analysts had previously

Banacci



Source: FT Estel/Latipost



been concerned about the bank's reliance on volatile trading income for a large share of its profits.

Net income for Banamex increased 4 per cent to 529 pesos from the previous quarter, while the rest of the group's subsidiaries saw a 3

per cent fall in total net income to 116m pesos. Banamex's net interest margins declined more than 3 per cent from the second quarter to 5.24 per cent, generating 1.97m pesos of net interest income, as interest rates fell in the three months to September and an

emergency debtor's plan backed by the banks and the government kept rates down on many rescheduled loans.

The bank said the debtors' plan, known as the ADE, cost 90m pesos in forgone interest payments for September. It may cost the bank about 300m pesos for the fourth quarter. The main aim of the scheme is to improve asset quality by making loans easier to pay.

The bank stressed that the quarterly rate of growth of past due loans had slowed from 35 per cent in the second quarter to 18 per cent in the third.

Net past due loans represented 6.22 per cent of the bank's total net loan portfolio at the end of the quarter.

Unrealised gains from securities trading of 454m pesos helped the group's net income to 1.18m pesos, up 27 per cent from the previous quarter.

President of Quaker Oats resigns from board

By Richard Waters
in New York

The second-highest ranking executive at Quaker Oats resigned yesterday in an apparent response to the company's disastrous \$1.7bn acquisition last year of Snapple Beverage.

Mr Philip Marneau, president and chief operating officer since 1993, had previously been regarded as a likely successor to Mr William Smithburg, the company's chairman.

While not directly explaining Mr Marneau's resignation, Mr Smithburg said that over the past year the company had acted to "remove [management] layers, shorten lines of decision making and bring senior level focus to bear upon major challenges".

Mr Smithburg added that all the company's businesses would now receive his personal attention, "including the important Snapple acquisition".

Since Quaker Oats agreed to buy Snapple late last year, the beverage company's sales have stalled and its profits have slumped.

Though probably the most successful of the new wave of health-conscious, additive-free drinks companies, Snapple has suffered in recent months from a new range of competitors, among them Coca-Cola and PepsiCo.

Mr William Leach, an industry analyst at Donaldson Lufkin & Jenrette, said of Mr Marneau's departure: "I guess he's the fall guy for Snapple. They have to blame somebody, and they can't blame the boss."

Yesterday's news added to concerns about Quaker Oats' latest quarterly earnings, which are due to be announced on Thursday. Due largely to the problems at Snapple, the company is likely to report earnings per share of 35 cents, down from 54 cents a share, Mr Leach said.

The departure of Mr Marneau, 49, does not leave the company with an immediate succession problem. At 56, Mr Smithburg is still some years from retirement.

Marketing costs hurt Nabisco result

By Maggie Urry in New York

Nabisco, the food group 80.5 per cent owned by RJR Nabisco following the flotation of a minority stake in January, blamed price-cutting by rivals and heavy marketing costs for a fall in third-quarter profits.

Mr John Greeniaus, president and chief executive, said the results were "disappointing", and the shares, floated at \$24.50, fell \$1 to \$23.74 in early trading.

Operating income dropped 10 per cent to \$196m, but a lower interest charge and tax rate left net income up from \$65m

at \$71m, before a \$19m extraordinary charge related to the early retirement of debt. Earnings per share fell from 28 cents to 27 cents, or to 20 cents after the extraordinary charge.

Profits from US operations, before goodwill amortisation, fell 10 per cent to \$196m. Nabisco said its Planters nuts and Nabisco biscuit businesses had been hit by aggressive price cuts by competitors. Nabisco had responded with heavy marketing to lift sales.

Procter & Gamble put its Fisher Nut brand up for sale in June. As a result, Nabisco said, Fisher decided "to reduce

prices drastically in order to increase market share in anticipation of selling its business".

The decision in July by United Biscuits of the UK to sell Keebler, its US biscuit business, had resulted in "increasing pricing pressures".

Nabisco's international operations increased operating income from \$52m to \$54m.

American Brands, which makes Benson & Hedges and Silk Cut cigarettes, and Jim Beam bourbon and Whyte & MacKay scotch whisky, increased third-quarter fully diluted earnings per share from ongoing operations from

52 cents to 71 cents. Fully diluted earnings per share rose from 73 cents to 80 cents.

Mr Thomas Hays, chairman and chief executive, said 1995 earnings per share from ongoing operations, which excludes profits from businesses sold and gains on disposals, would rise at least 17 per cent from the \$2.37 per fully-diluted share earned in 1994.

The group has sold businesses which three years ago accounted for 42 per cent of operating income. Proceeds of \$2.5bn have been used to buy back shares and repay borrowings, lifting earnings per share.

N American newsprint groups raise prices

By Bernard Simon
in Toronto

Several North American newsprint producers have bucked the recent weakness in paper markets by announcing another price increase.

The rises vary slightly between companies, but in most cases amount to an increase in net prices (including discounts) from US\$760 to between US\$814 and US\$817 a tonne.

The companies, which

include Fletcher Challenge Canada and Stone Container, plan to implement the increases in February 1996.

The announcements coincide with the traditionally busy fourth quarter. However, it is uncertain whether the full increases will stick.

Fletcher Challenge has sought to placate customers - who have been hit by a series of price increases - by guaranteeing the new price throughout 1997.

Newsprint prices have

soared since hitting a low of US\$410 a tonne in early 1994.

Although many North American newspapers have responded by cutting paper consumption, the market remains firm.

Groundwood papers, used for magazines and catalogues, have also escaped the downturn which has hit many other paper grades in recent months.

Abitibi-Price, which has so far not joined the latest price increase, said: "We're running our mills at full capacity and

selling everything we make."

The newsprint market has been buoyed partly by demand from Asia and Latin America, but also by capacity constraints. Several paper producers are switching, or have already switched, machines from newsprint to higher-grade papers.

Abitibi-Price said the upswing may continue for some time, with little extra newsprint capacity expected to come on stream in the next few years.

RANDGOLD

SUMMARY OF GOLD MINING COMPANIES' REPORTS
FOR THE QUARTER ENDED 30 SEPTEMBER 1995

ALL MINES IMPROVE PERFORMANCE FOR SECOND QUARTER IN SUCCESSION

EAST RAND PROPRIETARY MINES LIMITED

Quarter ended	30.9.95	30.6.95
Underground operations		
Ore milled - Tons '000	295	266
Yield - ounces/ton	8,215	8,195
Cost - US\$/ounce	383.46	414.15
Cost - US\$/ton milled	82.49	80.90

Quarter ended	30.9.95	30.6.95
Surface operations		
Tonnage treated - Tons '000	646	652
Yield - ounces/ton	8,017	8,016
Cost - US\$/ounce	224.97	248.97
Cost - US\$/ton milled	3.88	3.87

Quarter ended	30.9.95	30.6.95
FINANCIAL RESULTS		
Profit before taxation	2 569	896
Profit after taxation	2 569	896
Capital expenditure - net	5 895	4 170

HARMONY GOLD MINING COMPANY LIMITED

Quarter ended	30.9.95	30.6.95
Underground operations		
Ore milled - Tons '000	1 653	1 551
Yield - ounces/ton	8,099	8,101
Cost - US\$/ounce	362.16	374.60
Cost - US\$/ton milled	35.91	37.98

Quarter ended	30.9.95	30.6.95
Surface operations		
Tonnage treated - Tons '000	348	168
Yield - ounces/ton	8,018	8,025
Cost - US\$/ounce	173.76	216.92
Cost - US\$/ton milled	3.10	5.53

Quarter ended	30.9.95	30.6.95
FINANCIAL RESULTS		
Revenue	65 456	63 273
Cost	68 437	59 845
Working profit	5 019	3 428
Sundry revenue - net	1 797	1 329

BLYOORUITZICHT GOLD MINING COMPANY LIMITED

Quarter ended	30.9.95	30.6.95
Underground operations		
Ore milled - Tons '000	162	151
Yield - ounces/ton	8,189	8,184
Cost - US\$/ounce	372.46	373.63
Cost - US\$/ton milled	78.36	68.62

Quarter ended	30.9.95	30.6.95
Surface operations		
Tonnage treated - Tons '000	477	471
Yield - ounces/ton	8,088	8,007
Cost - US\$/ounce	239.78	239.38
Cost - US\$/ton milled	2.98	1.98

Quarter ended	30.9.95	30.6.95
FINANCIAL RESULTS		
Profit before taxation	1 333	271
Profit after taxation	1 333	271
Capital expenditure - net	287	426

DURBAN ROODEPOORT DEEP LIMITED

Quarter ended	30.9.95	30.6.95
Underground operations		
Ore milled - Tons '000	169	108
Yield - ounces/ton	8,126	8,118
Cost - US\$/ounce	351.62	386.25
Cost - US\$/ton milled	44.39	45.41

Quarter ended	30.9.95	30.6.95
Surface operations		
Tonnage treated - Tons '000	345	331
Yield - ounces/ton	8,017	8,016
Cost - US\$/ounce	327.82	334.41
Cost - US\$/ton milled	5.49	5.59

Quarter ended	30.9.95	30.6.95
FINANCIAL RESULTS		
Revenue	7 493	7 043
Insurance claim	165	-
Cost	6 731	6 755
Working profit	927	288

NOTES
1. All figures are unaudited.
2. All figures are in US dollars.
3. All figures are in US dollars.
4. All figures are in US dollars.
5. All figures are in US dollars.
6. All figures are in US dollars.
7. All figures are in US dollars.
8. All figures are in US dollars.
9. All figures are in US dollars.
10. All figures are in US dollars.

The full Imperial or Metric version of these results may be obtained from the UK secretaries.

This announcement appears as a matter of record only



ELEKTRONİK SANAYİ VE TİCARET A.Ş.

US \$13,000,000 Syndicated Credit Facility

Arrangers

ABN AMRO Bank The Chase Manhattan Bank, N.A.
The Park Avenue Bank, N.A. Société Générale
Westdeutsche Landesbank (Europa) A.G.

Managers

Alternatifbank A.Ş. Türkiye Halk Bankası A.Ş.
Türkiye Vakıflar Bankası T.A.O.

Agent

The Chase Manhattan Bank, N.A. Istanbul Branch

October 1995

Commonwealth Bank Australia

Commonwealth Bank of Australia ACN 123 123 124
(successor in law to the State Bank of Victoria)

U.S. \$125,000,000 Undated Capital Notes

For the six months 23rd October, 1995 to 23rd April, 1996 the Notes will carry an interest rate of 6.9975% per annum with an interest amount of U.S. \$901.82 per annum and U.S. \$7,545.57 per U.S. \$250,000 Note. The relevant interest payment date will be 23rd April, 1996.

Listed on the London Stock Exchange

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Company, London

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INTERFINANCE CREDIT NATIONAL N.V.

FRF 500,000,000 9.50% BONDS DUE 2001
with coupon reinvestment option

Common Code : 3389766 SICOVAM Code : 14716
According to the terms and conditions of the Bonds, notice is hereby given that 459 supplementary Bonds have been created upon exchange against Coupons on account of payment of interest.

New total nominal amount outstanding as of 31/10/95: FRF 671,300,000

The Principal Paying Agent, SOCIÉTÉ GÉNÉRALE GROUP, 15, Avenue Emile Reuter, Luxembourg

CHEMICAL BANKING CORPORATION

US\$100,000,000 SUBORDINATED
FLOATING RATE NOTES DUE 2008

In accordance with the provisions of the Notes, notice is hereby given that for the interest period from 23 October 1995 to 23 April 1996 the Notes carry an interest rate of 6.9475% per annum.
The interest payable on the relevant interest payment date, 23 April 1996, against coupon no 6 will be US\$295.62 per US\$ 10,000 note and US\$295.62 per US\$ 100,000 note.

CHEMICAL

INTERNATIONAL COMPANIES AND FINANCE

Surging bonds boost Japan's big four stockbrokers

By Gerard Baker in Tokyo

The gap between Japan's leading securities companies and the rest continues to widen. In the six months to the end of September the big four brokerages - Nomura, Nikko, Daiwa and Yamaichi - all recorded substantially improved profits. But for the middle-tier brokers, the depression that has dogged their performance for the past four years shows no sign of abating. And, despite a small improvement, most of the country's smaller companies also remain mired in the red.

The principal reason for the accentuation in the differences in profitability is diversification. The larger companies, which rely much less on the bread-and-butter business of equity brokerage commissions for their income, have benefited spectacularly from a surging bond market in the last year.

Declines in short-term interest rates and growing evidence of deflation have combined to push bond yields to historic lows. As a result bond prices

have risen sharply, producing big profits for traders.

Between them, the Big Four recorded trading profits of ¥121bn (\$1.2bn), four times the figure last year, and more than a fifth of their entire operating revenues. Since the stock market has remained stagnant, the bulk of those gains have come from fixed income trading.

Among the small and medium sized brokers, only four reported such a high proportion of trading gains in their total revenues.

The strong bond market helped the Big Four to combined operating profits of ¥88.6bn, more than three times the level achieved in the same period last year. The middle three companies - the most troubled of the sector - reported a further decline in their combined operating, recurring and after-tax profits. Of the remaining brokers, most reported a slight improvement in their operating performance but all except three continue to lose money.

The small and medium-sized brokers' reliance on equity brokerage commissions again

Japan's securities brokers: 1995-96 interim financial results (¥bn)									
	Operating revenue	Change on year (%)	Operating profit	Recurring profit	Net profit	1995	1994	1995	1994
Daiwa	143.9	+15.2	26.9	7.2	27.5	7.3	20.2	3.2	6.6
Nikko	110.6	+10.4	4.7	-4.4	8.2	-3.7	2.4	-6.6	-2.0
Nomura	139.0	+19.1	25.3	3.1	25.5	2.3	18.9	2.0	10.2
Yamaichi	200.1	+4.8	31.7	22.4	32.2	22.5	16.4	10.2	10.2
Total Big Four	593.6	+11.4	88.6	24.3	90.4	23.4	57.8	6.8	6.8
Sanyo	19.1	-14.9	-13.9	-14.3	-13.8	-13.5	-10.4	-9.9	-9.9
New Japan	38.4	-12.5	-3.6	-2.3	-4.3	-1.8	-4.9	-2.7	-2.7
Kanai	29.0	-12.4	-10.4	-9.8	-10.8	-9.7	-12.9	-7.8	-7.8
Total Middle Three	86.5	-13.0	-27.9	-26.4	-28.9	-25.0	-28.2	-20.4	-20.4
Wako	29.0	-3.4	-3.5	-7.2	-3.2	-7.3	-5.2	-5.1	-5.1
Otsuka	20.9	+2.0	-2.8	-4.2	-2.8	-4.2	-2.2	-4.3	-4.3
Yamato	8.6	-5.3	-3.3	-4.3	-2.9	-3.1	-2.6	-2.6	-2.6
Coedo	13.1	-6.6	-1.5	-3.0	-1.4	-3.1	-1.5	-2.8	-2.8
Dai-ichi	10.8	-7.9	-2.8	-4.0	-2.5	-3.7	-2.7	-1.8	-1.8
Marusan	8.9	+18.0	+0.8	-1.3	0.9	-0.9	0.7	-0.5	-0.5
Toyo	8.3	-12.6	-2.1	-2.6	-2.1	-2.1	-1.2	-2.2	-2.2
Kokusai	44.3	+6.8	+3.0	-1.7	3.2	-1.4	1.3	-2.4	-2.4
Tokai	12.8	-6.6	-3.3	-3.0	-3.4	-2.4	-3.5	-16.6	-16.6
Kosai	1.7	+4.0	+0.3	0.1	0.3	0.1	-	0.3	0.3
Taiheiyō	9.6	-15.5	-2.7	-2.1	-2.6	-1.9	-2.7	-2.0	-2.0
National	8.1	-4.9	-2.1	-3.4	-2.4	-3.7	-2.5	-3.7	-3.7
Maruichi	5.3	-11.3	-0.8	-1.4	-0.8	-1.3	-1.1	-1.1	-1.1
Total Others	178.4	-6.6	-20.7	-37.1	-19.7	-35.0	-24.3	-44.9	-44.9
TSEI brokers	854.5	+5.8	+40.0	-39.2	41.9	-36.6	5.3	-56.5	-56.5

* Before extraordinary items and tax

Source: Companies

proved costly. Average daily trading value on the Tokyo Stock Exchange in the six-month period was ¥313.2bn, a decline of 10 per cent from the

same period a year earlier. All companies except Nikko reported a decline in equity brokerage commissions. Most of the smaller companies

reported falls of more than 15 per cent. The smaller brokerages were especially hard hit by the dearth of trading by individual

investors, who provide the bulk of their commission income. The stock market collapse of the last five years has made small investors wary of equity investment, and despite a 20 per cent recovery in the Nikkei 225 index of leading stocks in the last three months, the cautious Japanese show no signs of returning to the market in large numbers.

Continuing economic weakness produced another sharp fall for all companies in underwriting commissions. But here the Big Four were as hard pressed as the smaller brokers. In the last year deregulation has opened up the securities market to the big banks, which are now permitted to compete with the brokers in underwriting. They have made strong progress in the last six months, largely at the stockbrokers' expense.

Most companies continued to renege. Aggregate operating expenses at all brokers declined by 8 per cent, following a fall of 5.4 per cent in the six months to September 1994. Staff numbers at the smaller brokers fell sharply again - by

9.4 per cent. The Big Four, by contrast, reported only a small decline in operating expenses and staff levels.

"Some of the smaller companies are cutting costs as aggressively as possible, but they are losing business at an even faster rate," said Ms Alicia Ogawa, financial sector analyst at Salomon Brothers in Tokyo.

The results suggest most brokers have still not adjusted to the harsh commercial realities of the 1990s. In the boom years of the late 1980s, trading values on the Tokyo stock exchange were three times current levels, equity and bond issuance were expanding rapidly and a heavily regulated market meant that brokers were left unmolested by competitor financial institutions, and were able to record substantial profits.

Those historic profits continue to underpin the brokers' current capital strength, however. Most companies remain comfortably capitalised, despite four years of big losses.

Kao again registers first-half growth

By William Dawkins in Tokyo

The sales success of a hair tonic helped Kao, Japan's leading household products company, report a rise in interim profits for the 15th successive year.

Kao, one of the few Japanese companies to have increased its revenues throughout the recession, yesterday unveiled a 4.7 per cent rise in recurring profits - before tax and extraordinary items - to ¥26.9bn (\$269m) in the six months to end-September. That implies improved margins, on sales up 3.4 per cent to ¥333.4bn over the same period.

On the strength of this, Kao forecasts a 4.3 per cent rise in recurring profits to ¥27bn for the full year to next March, on sales up 2.3 per cent to ¥670bn.

Within the six-month total, sales of personal care products and cosmetics rose 0.9 per cent to ¥115bn. This was helped, said Kao, by strong consumer support for Success Medicated Hair Growth Enhancer essence, launched in March. The laundry and cleaning products division reported a 5.2 per cent turnover gain to ¥134bn. Sales of hygiene products and bath additives rose 1.1 per cent to ¥39.7bn, helped by a significant increase in sales of disposable nappies.

The chemical products division lifted sales 6.8 per cent to ¥43.8bn, reflecting strong industrial demand for Kao's fatty chemicals and edible oils. Overall, net income rose by 4.2 per cent to ¥13.1bn, on which Kao will pay an interim dividend of ¥6 a share, a ¥0.5 gain on the comparable period.

Clark tight-lipped on Coles Myer move



By Nikki Tait in Sydney

Mr Nobby Clark (above), the outgoing chairman of Foster's Brewing Group, yesterday remained tight-lipped over whether he would replace Mr Solomon Lew as chairman of Coles Myer, Australia's largest retailer and the recent focus of institutional investors' concerns over corporate governance standards.

"I've made no decisions about my future... let's wait and see what transpires," he commented after formally retiring from the Foster's board at the company's annual meeting yesterday. Remaining board directors at Coles and institutions who led the push were yesterday due to start discussing the appointment of the new chairman and five new non-executives.

Foster's, meanwhile, told its shareholders it retained about A\$600m-worth (US\$450m) of non-core assets after its recent restructuring. As these are sold over the next few years, Foster's should emerge debt-free. This, said Mr Clark, would leave the group with

"an unencumbered brewing business, and the potential to leverage those assets as suitable investment opportunities are identified".

He gave no clues as to what expansion opportunities were under consideration, but reconfirmed that any acquisition outside Australia would be within the beer business. "While there is no immediate time pressure, we obviously cannot stand still," he said, later indicating that an acquisition might be possible within the next 12 months. Foster's also announced that Mr John Ralph, the former chief executive of CRA, the mining group, would be its new chairman.

● The three institutions which spearheaded the drive for boardroom changes at Coles Myer said they hoped to pronounce this week on the future composition of the retailer's board. They said all parties agreed that the aim was for a united board, and added: "In the interests of fairness to the individuals who might be involved, it was agreed in the meantime that no further public statements would be made."

Nippon Credit Bank plans radical shake-up

By Gerard Baker

Nippon Credit Bank, labouring under a burden of bad loans, yesterday announced plans for a radical retrenchment of its global operations.

NCB, one of Japan's 21 leading commercial banks, said the three-year restructuring programme would include a reduction of 300 jobs, or 10 per cent of its workforce, by the end of March 1998.

The measures would enable the bank to accelerate the write-off of bad loans. Officials said the aim was to cut overall

costs by more than 10 per cent a year and to eliminate problem loans within five years.

The bank will reduce its Paris and Frankfurt offices to a bare minimum, moving most employees to London by next spring.

It will also shift some business from Hong Kong and Singapore to Tokyo, and concentrate North American operations on New York.

Recruitment, already down to a trickle, will be further restrained, staff bonuses will be cut and some assets will be sold, officials added.

Like all Japanese banks, NCB is likely to report sharply higher operating profit next month when it discloses its results for the six months to the end of September. Profits from bond trading in a favourable climate of falling interest rates have helped most banks improve their performance so far this year.

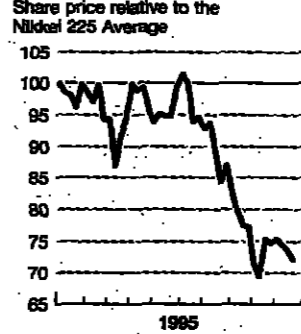
But the bank is one of the most troubled even by current Japanese financial standards. At the end of March it disclosed problem loans of ¥611bn (\$6.1bn), or 6 per cent of its total loan book, the highest

proportion among the 21 largest banks. However, the figure does not include a range of other loans that are, in effect, non-performing, including restructured loans (where the interest has been slashed to keep borrowers from bankruptcy) and loans to the troubled mortgage companies.

Analysts estimate that the bank's total non-performing assets could be more than 11 per cent of its loan book. On current cost and revenue trends it could take more 20 years for the bank to eliminate them.

Nippon Credit Bank

Share price relative to the Nikkei 225 Average



Source: FT Data

Comalco in A\$81m disposal

By Nikki Tait

Comalco, the Australian aluminium company controlled by CRA, is selling its aluminium extrusion and distribution businesses to Capral Aluminium for A\$81m (US\$61m).

Capral was previously known as Alcan Australia, but changed its name after Canada's Alcan Aluminium sold its 73.3 per cent stake to Australian investors last year.

The businesses involved in the sale include aluminium extrusion operations in three states, with a combined capacity of about 36,000 tonnes a year, and a distribution network which takes in 10 warehouses and three sales offices nationwide.

Comalco said the sale price was in excess of book value. The disposal follows earlier moves by the group to concentrate on upstream alumina and aluminium smelting, which included the sale of its US-based Commonwealth Aluminium unit for about US\$190m. It added it was continuing talks on the sale of its rolled products business.

This announcement appears as a matter of record only.

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COMPANY NEWS: UK

Dobson rejects prospect of increased offer

By Tim Burt

The battle for control of Dobson Park Industries intensified yesterday after the UK mining equipment group rejected the prospect of an increased takeover offer from Harnischfeger Industries, the US manufacturer of coal-cutting machinery.

Milwaukee-based Harnischfeger told Dobson Park that it would lift its bid from £172m to £200.6m if the company agreed to recommend the cash offer to shareholders.

However, Dobson Park said the proposed offer still undervalued the company and failed to recognise the export potential of Longwall International, its roof supports and conveyors subsidiary.

Mr Adrian Buckmaster, chief executive of Dobson Park, said: "If Dobson Park is to lose its independence, then shareholders need to receive full value for a business which is clearly on an improving trend."

Under the proposed offer -

made at the weekend - the US group offered to increase its bid from 110p a share to 125p, while promising to pay shareholders the 3.3p final dividend announced by Dobson Park on Friday.

The increased dividend, up from 2.55p last time, followed publication by the UK company of a buoyant profits forecast, which predicted a 41 per cent increase in pre-tax profits to £14.8m this year.

Yesterday, Harnischfeger was said to be disappointed that Dobson Park had revealed the terms of its "confidential" proposal, which was conditional on receiving a recommendation from the Dobson Park board.

Nevertheless, the US group is today expected to extend its original bid - pending a decision on whether to make a revised offer at the end of this week.

Some US industry analysts said it was unlikely to increase its bid much above the total of 128.3p a share offered at the

weekend.

"Having offered something more, I would not expect them to increase the bid again," said Mr Tom Burns at NatWest Securities in New York. But an institutional shareholder in Dobson Park said that might not be enough.

"We have been patient investors in Dobson Park for many years and we won't be rushing to bail out at this junction," said one institution, which asked not to be named.

Three institutions - Britannic Assurance, Baring Fund Managers and M&G Investment Management - together hold more than 30 per cent of Dobson Park.

Kleinwort Benson Securities, which is not involved in the bid, said Harnischfeger needed Dobson Park "in order to grow and also to defend its market shares".

Dobson Park shares, which traded at 83p on the day Harnischfeger first announced its interest, closed down 1p at 124p.

Thorn EMI disposal raises \$151m

By Patrick Harverson

Thorn EMI, the leisure group, has raised \$150.5m in cash from the disposal of its remaining 2.8 per cent stake in SGS-Thomson, the Franco-Italian semiconductor manufacturer. The proceeds will be used to reduce borrowings.

The sale of the 3.6m shares was concluded as part of a public offering by SGS-Thomson and its main shareholders, which include France Telecom and Thomson-CSF, the state-owned electronics group, and the Italian conglomerates IRI and Comitato SIR.

The owners of SGS-Thomson sold a total of 18m shares at \$43.50 each to raise funds for expansion at the company, which has already benefited from strong demand within the semiconductor industry.

Thorn EMI's stake in SGS-Thomson has been steadily reduced from 10 per cent in the past few years as part of a withdrawal from non-core businesses. The group to demerge its music and household rental businesses. Sir Colin Southgate, chairman, hopes to unveil formal proposals on the division of the two businesses in the first quarter next year.

However, Thorn EMI may not get the chance to demerge its shares have risen in recent months amid speculation that a North American entertainment group would pre-empt the split by launching a bid for EMI Music, the group's music division and the world's third largest record company.

Thorn EMI's shares fell 21p to £15.30p.

SmithKline in Bf2bn R&D investment

SmithKline Beecham, the pharmaceutical and healthcare group, is to invest a further Bf2bn (£238m) in research and development at its vaccine headquarters in Rixensart, Belgium.

The group plans to build a new R&D facility on the present site, to be up and running by the end of 1997. More scientists will be recruited.

SB's vaccine business has seen significant growth over the past five years, which it expects to continue. Its newest product, Infanrix, protects against whooping cough, tetanus and diphtheria, and is the first stage in its strategy to transform the children's vaccine market by combining vaccines into a single shot.

Judge clears \$185m T&N case for trial

By Tim Burt

Chase Manhattan, the US bank, yesterday claimed it had won the first round of a \$185m legal action against T&N, the British engineering group, over alleged asbestos contamination of its New York headquarters.

The bank said the judge handling its case against T&N, formerly a leading asbestos supplier, had rejected moves by the UK group to have the case dismissed in a summary judgment.

Judge John G Koeltl said Chase could pursue claims against T&N for "negligence, strict liability, fraud, restitution, indemnity and public nuisance".

He dismissed, however, the bank's claim for breach of express and implied warranty and private nuisance.

T&N said it had not expected to win at this stage and was fully prepared to contest the case before a jury in the US district court for the southern district of New York.

The case, which will open next Monday, centres on allegations by Chase that T&N was aware of the health hazard when it supplied asbestos during the construction of Chase Plaza in 1983.

It is claiming \$100m in punitive damages and at least \$85m for removing the material from the building.

If it wins the case, Chase claims it could prompt poten-

tially larger lawsuits by New York's Port Authority over asbestos used at the World Trade Center and LaGuardia airport.

Mr Michael O'Connor, senior associate counsel and vice president of Chase, said: "T&N had staked an awful lot on winning this judgment. Most of their exhibits go to the issue of Chase's own negligence and this has been ruled inadmissible."

T&N, which has denied liability, rejected Chase's action and accused it of exaggerating the importance of the preliminary ruling.

The case is expected to last at least six weeks.

Judge Koeltl has also appointed a so-called special master, a senior attorney who will seek a possible settlement between the two sides.

T&N has completed the latest stage of its \$100m disposal programme with the sale of its Hydra-Tight bolting products business for £12m.

The sale pushed the group's disposal receipts this year to about £70m, excluding funds raised from the disposal last October of Goetze Elastomers, its German engine seals subsidiary.

In the latest disposal, T&N received \$9.8m in cash and \$2.2m in redeemable preference shares from a new company established by Hydra Tight's senior management and 31, the investment capital group.

LEX COMMENT

BTR buy-out

BTR's £2bn buy-out of BTR

Nyllex's minority shareholders

has failed to spark any investor

enthusiasm. BTR's share

price has underperformed the

stock market by 10 per cent

since the somewhat uninspired

deal. Part of the reason is that

if BTR shares rise above 320p,

arbitrageurs can sell them and

buy them back more cheaply

via the Nyllex cash and share

offer. This will continue to

restrain BTR's share price

until Nyllex ceases trading in

early December. But, once the

arbs have off-loaded their new

BTR shares, there should be a

rebound.

The shares offer a prospective yield that is a third higher

than the market average. Some investors are worried that

gearing will rise to over 100 per cent after Nyllex. However,

interest cover will be comfortable, while internal cash genera-

tion and £1.2bn from warrant conversions over the next two

years mean there is no threat to dividend growth.

BTR's lowly market rating ignores two factors. BTR has

been investing in growth areas, such as batteries, automotive

sealings and high-tech packaging, which should yield substan-

tial returns. Nyllex provides further opportunities for invest-

ment in growing Asian markets. Meanwhile, Mr Ian Strachan,

the new chief executive, is likely to shake up strategy. Selling

non-core businesses such as Dunlop and reinvesting in higher

growth manufacturing would make BTR look more like an

engineering company than a traditional unfashionable con-

glomerate - which would do wonders for the shares.

Share price relative to the

FT-SE-A All-Share Index

120

110

100

90

80

70

1993

94

95

Source: FT Index

From seal of approval to symbol of quality

BABT is carving out a new role for itself in the international telecoms market. Alan Cane reports

The British Approvals Board for Telecommunications, for more than a decade the bane of manufacturers hoping to introduce new telephone equipment quickly to the UK, is seeking a bigger role in international telecoms. It is hoping to persuade manufacturers which once saw it as a barrier to their progress that it can offer a unique form of quality assurance, giving them a competitive edge over their rivals.

It has been forced to rethink its commercial strategy by a European Union decision that has had the effect of reducing the amount of approvals work it is called on to carry out.

Mr David Clarke, managing director, expects a 25 per cent fall in BABT's £2m annual turnover from testing and approving telecoms equipment. It hopes to recoup lost revenues and return to growth by establishing the BABT brand as a quality symbol.

Before it was privatised, British Telecommunications approved all equipment designed to be attached to its network. After privatisation, BABT, a private company based in Hersham, Surrey, pro-

vided an independent guarantee that telecoms equipment would harm neither the user nor the network.

It was funded by loans from manufacturers' trade associations which it repaid from testing fees. A green sticker, familiar to users of UK telecoms equipment, showed the product had passed the BABT tests.

In 1990 a EU directive was passed allowing equipment tested in one country to be sold anywhere in the EU without further testing. The cornerstone of the directive was a set of standard tests which were much less comprehensive than BABT's and therefore easier and cheaper to carry out.

BABT is responding to the challenge in three ways.

First, it is encouraging manufacturers to opt for voluntary BABT certification as a way of adding value to their products. It argues that manufacturers should see the benefits of having their products tested to a higher standard than simple EU certification. Proof of compliance is a new BABT mark of approval, a white tick on a blue background circled by the EU stars.

Second, it has developed methods of analysing and test-

ing the systems telecoms operators use to meter calls and prepare customers' bills. Industry regulators, such as Ofcom in the UK, are demanding evidence that billing systems perform satisfactorily.

Finally, as governments worldwide privatise their telecoms operators and liberalise their markets, BABT is being consulted on the establishment of equipment approvals procedures in countries such as Bulgaria and Indonesia.

By 2000, Mr Clarke believes, only 25 per cent of BABT's work will be routine approvals. He expects the group's total revenue to grow from about £3.5m today to more than £5m.

The board not only approves products made by its 2,500 customers worldwide but also certifies the factories that make them. Earlier this year, for example, Cisco, the fast-growing Californian networking company, became the first US company to be given a BABT Full Quality Assurance certificate for its manufacturing facilities in San Jose. BABT certification will allow Cisco to sell products designed to connect to European telecoms networks without further rounds of testing and approval.

CE Heath sells joint venture stake

By Ralph Atkins, Insurance Correspondent

C.E. Heath, the insurance broker, has raised £16m by selling its 50 per cent shareholding in HHL (Holdings), a Hong Kong-based joint venture.

The stake has been sold to Heath's partner in the venture, Rollins Hudig Hall, the broking and consulting arm of the US-based Aon group.

Despite the sale, Heath said it remained committed to the Asian market which offers London-based brokers the prospect of a fast-growing alternative to the competitive UK market.

Heath said it had agreed to the sale because of the attractive price offered. The deal also provided for the existing "wholesale" broking relationship between Heath and HHL - by which business is brought into the London insurance market - to continue for at least the next five years at levels similar to those existing at present.

Heath said the sale proceeds would provide additional capital for the expansion of the group's broking operations and Mr Presland said alternative Asian investments were likely.

HHL made pre-tax profits of HK\$26m in 1994 and at the end of 1994 had net assets of HK\$94.6m.

Reckitt in fly spray buy talks

By Motoko Rich

Reckitt & Colman, the household products group, is believed to be in talks with AgroEvo Environmental Health, a Berkhamsted-based pest control company about the possible acquisition of two fly spray brands.

Reckitt declined to comment.

AgroEvo EH is a joint venture between the agrochemicals businesses of Hoechst, the German chemicals group, Schering, the German pharmaceuticals company and Roussel Uclaf, the French drugs company controlled by Hoechst. It could not confirm the talks with Reckitt but said it was in talks with several groups about the future of its consumer fly spray brands, Piff-Paff and Doom.

Mr Geoff Harris, UK managing director, said: "The future of our customer brands are under review because they do not fit with our core business." He said the company was focused on pest control products for the professional industry.

"We have had discussions with a number of companies who are expert in the management of those types of consumer brands. No commitments have yet been entered. There is no certainty yet what we will do," he added.

Cash call likely to fund MY buy

By Patrick Harverson

M.Y. Holdings, the acquisitive paperboard and plastic packaging group which doubled full-year profits despite sharply higher raw materials costs, said yesterday it was likely to make another large acquisition in 1996.

The deal would almost certainly be funded by a rights issue, the company said.

Announcing pre-tax profits up from £4.51m to £9.12m in the year to September 2, Mr John Monks, chief executive, said the group would build on its presence in the healthcare and food and consumer packaging markets through greenfield start-ups, bolt-on acquisitions and at least one large takeover deal, which would probably be worth about \$40m-£50m.

"We are in discussions with two or three people," Mr Monks said.

A deal might be struck as early as next spring, he added.

Although the next few deals would be restricted to the UK market, Mr Monks said the group would eventually look to buy businesses in continental Europe.

The group has made a significant acquisition in each of the past five years - the most recent was the £22.4m purchase last November of ProPharmaPak, a manufacturer of cartons for the drugs industry. It has financed two of those deals with rights issues.

Mr Monks said he was confident that the stock market would support another cash call.

The management's ultimate aim, he said, was to build a business with a market value of between £200m and £250m, making it one of the top 10 forces in the UK packaging industry.

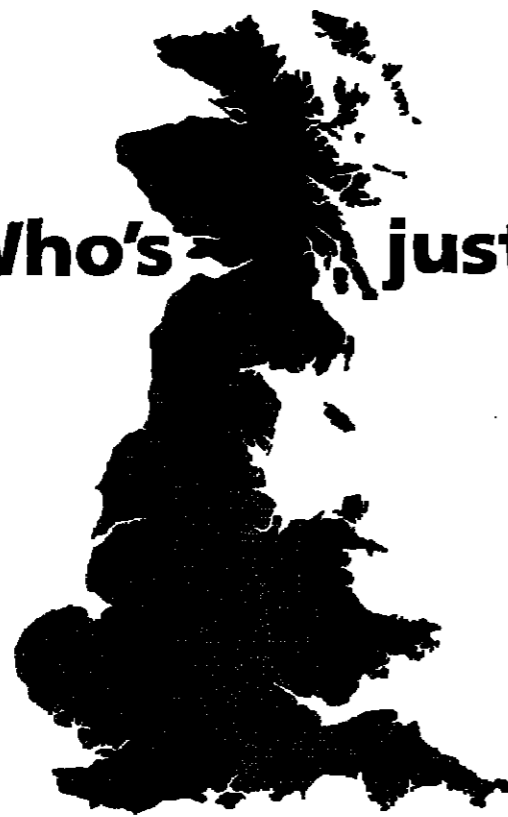
Turnover rose 51 per cent to £77.1m, of which £5.7m came from acquisitions.

RESULTS

	Turnover (£m)	Pre-tax profit (£m)	EPS (p)	Current dividend (p)	Date of payment	Dividends Corresponding dividend	Total for year	Total last year
Atkinson Trust Co	5 mths to June 30	0.013*	(0.011)*	0.002	(0.0005)	0.008	(0.037)	-
Camphill & Jern	6 mths to June 30	40.1	(26.6)	0.88	(0.21)	6.2	(1.4)	-
Overseas Refractories	6 mths to June 30	4.1	(4.26)	0.38	(0.55)	14.7	(8)	-
Dalys	6 mths to July 30	10.2	(7.95)	0.485	(0.423)	3.57	(3.22)	9.5
Dunlop House	6 mths to June 30	0.09	(0.235)	0.0038	(0.0018)	0.02	(0.01)	1.75
Fairbairn	6 mths to June 30	5.88	(8.19)	0.926	(1.51)	4.88	(7.9)	-
London Metropolitan	6 mths to June 30	1.24	(1.83)	1.8	(2.14)	3.5	(4.7)	-
MY Holdings	6 mths to June 30	77.1	(51.2)	3.12	(4.51)	6.30	(4.49)	-
Old English Pub Co	9 mths to Sept 2	3.86	(2.4)	0.2614	(0.101)	2.71	(1.58)	-
Ross	6 mths to June 30	27	(33.9)	2.414	(0.0159)	1.72	(0.04)	-
Investment Trusts								
Dunlop	7 mths to Sept 30	25.658	(1)	36.3	(1)	0.91	(1)	-
Edinburgh Dragon	11 mths to Aug 31	105.84	(125.84)	0.117	(0.045)	0.044	(0.071)	-
Fleming Inc & Cap	6 mths to Sept 30	91.7	(79.6)	3	(2.32)	2.6	(2.51)	-
Kleinwort Benson	6 mths to Sept 30	127.8	(116.9)	0.264	(0.09)	0.88	(0.3)	5.1
Kleinwort Second	11 mths to Sept 30	105.9	(98.5)	0.471	(1.34)	2.36	(8.71)	-

Dividends shown net. Earnings shown basic. Figures in brackets are for corresponding period. *4th stock. **Comparatives for period to December 31 1994. *Total revenue. *Net currency. *Includes exceptional charge. *In increased capital. *Comparatives restated. *Value per 6 shares. *Second interim.

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COMMODITIES AND AGRICULTURE

Lead and nickel consumers warned of price rises

By Kenneth Gooding,
Mining Correspondent

Consumers of lead and nickel were warned yesterday that tightness of supply was likely to drive up prices. Shortages of aluminium - and accompanying high prices - would also appear, but not until 1997, it was suggested at a seminar organised by the London Metal Exchange. Upward pressure on the copper price would ease as supply surpluses developed, delegates were told, and it would take some time for deficits to produce genuine tightness in the tin market.

Aluminium: Mr. Tom Bird, of the Anthony Bird Associates consultancy, said he did not expect aluminium prices to fall much further from the \$1,640 a tonne level - the lowest for 12 months - reached last week on

Forecasts made at LME seminar (US cents/lb)			
	1996	1997	
Aluminium	72.9	82.3	
Copper	125	133	
Lead	31.7-34		
Nickel	400+	373	
Tin	300-350	280	
Zinc	49.3+		

the LME but it would not be until 1997 that there would be a substantial rise.

At that time the industry's failure to invest in new capacity coupled with increasing demand would push prices back up from an average of \$1,607 a tonne in 1996 to \$1,760. Mr Bird calculated that the industry was to add only 1.1 per cent a year to existing primary aluminium capacity at a

time when demand growth was an annual 3.7 per cent. He said the industry at present could justify an LME cash price of \$1,610 and if prices went below that level it would cause companies to think again about restarting idled capacity.

Copper: After two years of substantial supply deficits, the copper market would move into surplus in 1996, but not until the second half, said Mr Huw Roberts of the Brook Hunt metals consultancy.

"At this stage, however, we are reluctant to forecast too steep a decline as we see the market remaining physically tight for at least another six months."

LME copper prices would be well supported through the first half of 1996, said Mr Roberts, but then dip to average \$1.10 a pound by next

December.

Lead: Mr Chris Torrible of the CRU International metals consultancy warned that lead stocks might approach historically tight levels in 1996 and be equivalent to only five weeks of consumption. When that last happened, in 1989, "we had a boom in prices."

Lead prices would move above \$750 a tonne in the middle of next year and the average for 1996 would be between \$700 and \$750 a tonne.

Nickel: Nickel supplies would be tight for the next few years, predicted Mr Jim Lennon, analyst at the Macquarie Bank group. Market stocks would be at a critical level - "where prices can really take off" - if there was a further fall of 50,000 tonnes. That critical level might be reached in 1997.

In the short term, however, demand might not be maintained at "1995's inflated level" and "LME prices could come under further downward pressure, perhaps towards \$3 a pound."

Any fall in the nickel price would be short lived, Mr Lennon insisted. "By the middle of next year we expect to see LME nickel prices trading back above \$4 a pound. A movement above \$5 is possible in 1997."

Tin: Substantial rises in the tin price could not be expected until world stocks fall below 20,000 to 25,000 tonnes, equivalent to six or seven weeks demand, said Mr Andy Shaw of the Resource Strategies metals consultancy.

Only 50 per cent of today's tin production capacity was profitable at the operating level at \$2.50 a pound and the

long term economic price of tin production was likely to be some way above the highest price achieved this year (\$3.31 a pound). Resource Strategies is forecasting an average tin price between \$3 and \$3.50 in 1996 against \$2.80 this year.

Zinc: CRU's Mr Torrible said demand for zinc was likely to fall to "recession levels" and grow by only 0.8 per cent as consumers reduce the big stocks they built up this year when "apparent consumption" (including stock building) grew by 6.7 per cent.

Mr Torrible forecast a zinc supply deficit of 500,000 tonnes this year and nearly 300,000 tonnes in 1996, but the short term price outlook was not bullish. Nevertheless, zinc should recover to average more than \$1,100 a tonne in 1996 and show further gains in 1997.

Iron ore outlook brightens as demand improves

By Frances Williams in Geneva

Strong demand for iron ore has begun to lift previously depressed prices this year and the outlook for 1996 also looks bright, according to the United Nations Conference on Trade and Development.

In a report prepared for a three-day meeting of experts that began yesterday in Geneva, UNCTAD foresees continuing strong demand for steel and iron ore products over the next year or so, especially in developing countries including China and in eastern Europe.

World consumption of iron ore rose by 3.4 per cent last year to 954.6m tonnes from 923.5m tonnes in 1993, boosted mainly by an upsurge in the steel sector in Europe and the US. Demand for ores was strong in a number of developing countries, and there was some stock rebuilding.

World iron ore production also rose by 3.4 per cent in 1994 to 970.7m tonnes, Brazil, which mined 167.5m tonnes, is now the leading producer in terms of marketable ores. China, the world's biggest consumer, mines a bigger gross tonnage but less than half its production of 239m tonnes last year is useable ore.

In the Commonwealth of Independent States iron ore output fell by a further 11.7 per cent in 1994 to an estimated 136m tonnes - little more than half 1990 production of 265m tonnes. However, output and demand have begun to recover this year, UNCTAD reports.

Booming steel demand propelled the volume of world trade in iron ore to a record 430.5m tonnes last year, a rise of 7.4 per cent. Australia and Brazil are the world's principal iron ore exporters, with almost 30 per cent each of total trade.

However, iron ore prices declined for the third year running in 1994, despite the tight supply situation, and began to rise only in 1995.

UNCTAD says producers failed to take advantage of favourable market conditions - which were accompanied by higher prices for steel products and ferrous scrap - and notes that buyers are

Germany and Japan gained an extra price advantage from the strong appreciation of their currencies against the dollar.

Review of the current situation and outlook for iron ore - 1995 (TD/B/CN.II/IRON ORE/18). Available from UNCTAD, Palais des Nations, CH-1211 Geneva 10, fax +41 22 907 0043.

Indian summer saves sugar growers from a beating

The outturn will not be as seriously depleted as seemed probable following the summer drought

All prospects of heavy yields of sugar-beet being harvested in the UK this year disappeared during the long hot summer.

Although most crops were planted in good order in March and emerged in April, the drought, which began in May and continued until the end of August, inhibited root growth throughout that critical period. September rains saved many fields from total disaster but came too late to correct the serious moisture deficiency that had accrued.

Nevertheless the Indian summer since has provided just what the roots required, so the outturn will not be as seriously depleted as once seemed probable. Indeed there has been quite exceptional compensatory growth during the past six or seven weeks, when roots have benefited from the soil moisture and the warm sunshine. The rain has increased root weights and the sunshine sugar percentages, and both have improved from close to tragedy to near respectability.

FARMER'S VIEWPOINT



By David Richardson

To give crops as much time to recover as possible British Sugar, the monopoly processor of all the sugar-beet grown in the UK, delayed opening its factories until the second week in October, two weeks later than usual. Clearly the processing company is as interested in the achievement of the best yields possible as are its growers. The European Union quota system for sugar-beet means the UK is only about 50 per cent self-sufficient for sugar and the supply from the national processor to domestic consumers is, therefore,

restricted. In addition, it is vital for the entire sugar-beet industry to maintain production at or above the EU annual quota of 1.44m tonnes of refined product. Failure to do so would incur the risk of the quota being further reduced by the EU. That in turn would cut the tonnage of sugar-beet eligible to be sold at the EU guaranteed price, which is higher than the world price.

Two months ago it seemed probable that the UK industry would fail to produce up to its quota tonnage. But now, following favourable autumn weather, it seems likely that the quota may be exceeded by a small margin. That, however, will still amount to a disappointment for growers in a year in which world supplies of sugar seem set to be tight and over-quota supplies sold at world prices may be worth almost as much as those which benefit from EU aid.

To maximise deliveries of roots to factories, British Sugar has expanded a scheme it had

already planned to monitor and advise on farm operations in order to minimise losses during mechanical harvesting. It is particularly relevant in a year like this because the smaller the roots, the more likely they are to fall through harrows, lifting chains on to the ground. Labour costs are far too high these days to glean such spillages, so those roots are a dead loss.

It seems probable that similar attempts will be made for similar reasons in other EU countries where sugar-beet is grown. Ireland, for instance, shared the same sort of weather with the UK last summer and reports from the republic suggest equally poor crops. Denmark, Holland and Germany are said to be harvesting below average yields, while France and most of the Scandinavian countries are apparently enjoying a relatively normal year.

Meanwhile the challenges for UK sugar-beet growers and British Sugar continue. It is well known that roots continue

to grow until sharp frosts hit them, in other words usually until mid- to late-November. But, for two main reasons, there is great temptation for growers to lift before that date.

The first is to clear the land in order to plant winter wheat into the same soil for harvesting next August - the later it is planted the lower the likely yield. The second is to get as many beets as possible harvested and clamped while the fine weather lasts, so as to avoid the problems of lifting roots in mud, together with associated soil damage later in the winter.

The challenge for British Sugar is to process all the roots delivered to factories in reasonable time in a campaign that is already a couple of weeks late. Farmers like me detest having beets of beet on the farm after Christmas. Tests have shown that they lose both sugar and weight and therefore value we are forced to cover the ground against frost damage, and we are well aware that most French, Dutch and German

growers finish their beet deliveries by the end of November. Neither British Sugar, nor growers, can afford many delays because of factory breakdowns this year of all years.

However, from a personal viewpoint, I can report that the first dozen or so lorry loads from this farm have been delivered to our local factory and the returns are better than I had feared. Sugar levels averaged 16.7 per cent, which was consistent with, if not a little higher than field tests done across the best-growing areas of the east of England and the west Midlands. And as we continue to practice just-in-time lifting we are delivering roots that have been increasing in size almost visibly over the past couple of weeks as they have soaked up the autumn rain. To improve even further before winter frosts they now need a bit more rain. An inch each weekend from now until mid-November will do nicely. It would also help the autumn sown cereals.

Jamaica bauxite output falls by 6.5 per cent

By Canute James in Kingston

Jamaica's bauxite (aluminium ore) production fell to 8.1m tonnes in the first three quarters of this year, 6.5 per cent less than a year earlier, according to the Jamaica Bauxite Institute. Alumina (aluminium oxide) production fell 5.7 per cent to 2.2m tonnes.

The reduction was caused by strikes at three of the island's four refineries earlier this year, said Mr Dennis Morrison, senior economist at the institute. Plants were affected also by several technical problems, he said.

The industry would be unable to reach last year's output of 11.7m tonnes of bauxite and 3.3m tonnes of alumina, Mr Morrison reported. Higher prices, however, would leave Jamaica's earnings from the industry above last year's US\$613m.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

ALUMINIUM, 99.7 PURITY (% per tonne)

Close 1626-27 1663-64
Previous 1608.5-10.5 1645-47
High/Low 1627/24 1670/80
AM Official 1627-27.5 1665-65.5
Kerb close 1627-27.5 1661-62
Open int. 228.803
Total daily turnover 46,239
ALUMINIUM ALLOY (% per tonne)
Close 1380-90 1420-30
Previous 1370-90 1410-30
High/Low 1380-95 1420-35
AM Official 1380-95 1420-35
Kerb close 1380-95 1420-35
Open int. 3,088
Total daily turnover 839
LEAD (% per tonne)
Close 688-71 691-82
Previous 680-71 690-81
High/Low 687-70 690-82
AM Official 687-70 690-82
Kerb close 687-70 690-82
Open int. 32,470
Total daily turnover 8,892
NICKEL (% per tonne)
Close 7990-8000 8115-20
Previous 7890-70 7980-90
High/Low 7920 8170/8020
AM Official 7910-20 8035-40
Kerb close 7910-20 8035-40
Open int. 44,907
Total daily turnover 9,984
TIN (% per tonne)
Close 6160-70 6230-35
Previous 6160-70 6230-35
High/Low 6160-70 6230-35
AM Official 6160-70 6230-35
Kerb close 6160-70 6230-35
Open int. 18,991
Total daily turnover 3,193
ZINC, special high grade (% per tonne)
Close 955-55 970-80
Previous 957.5-55.5 981-82
High/Low 951.5 984/975
AM Official 951-55 984/975
Kerb close 951-55 984/975
Open int. 60,260
Total daily turnover 25,278
COPPER, grade A (% per tonne)
Close 2780-85 2895-97
Previous 2780-85 2895-97
High/Low 2780-85 2895-97
AM Official 2780-85 2895-97
Kerb close 2780-85 2895-97
Open int. 187,881
Total daily turnover 51,894
LME ALUMINUM 2% RATE, 1.5790
LME CLOSING 1% RATE, 1.5910
Spot 1.5811 3 mths 1.5781 6 mths 1.5735 9 mths 1.5694
HIGH GRADE COPPER (COMEX)
Sett. Day's price change High Low Vol. Open
Oct 129.50 +2.15 129.50 127.80 250 813
Nov 127.25 +2.20 127.25 125.50 285 1,638
Dec 125.35 +2.30 125.35 123.80 5,450 22,362
Jan 124.35 +2.40 124.35 122.10 26 593
Feb 122.75 +1.80 122.75 120.90 14 445
Mar 122.15 +2.25 122.15 120.00 324 5,999
Total 6,887 30,853

PRECIOUS METALS

LONDON BULLION MARKET

(Prices supplied by N.M. Rothschild)

Gold (Troy oz) \$ price

Close 382.80-383.00 383.00
Opening 382.30-382.80
Morning fix 382.55 242.25 433,355
Afternoon fix 382.55 241.616 429,236
Day's Low 382.60-382.90
Day's High 382.90-383.20
Previous close 381.80-382.20

Lond. Ldn. Mean Gold Lending Rates (% US\$)

1 month 3.75 6 months 3.60
2 months 3.74 12 months 3.50
3 months 3.62

Silver Fix p/tonn US \$ price

Spot 339.85 537.00
3 months 344.15 542.65
6 months 348.45 548.20
1 year 356.95 558.85
Gold Coins \$ price £ equiv.
Kruggerand 981-385 241-242
Maple Leaf 393.45-395.95
New Sovereign 87-90 55-57

Precious Metals continued

GOLD COMEX (100 Troy oz; \$/troy oz)

Sett. Day's price change High Low Vol. Open
Oct 382.6 +0.3 383.0 383.0 100 240
Nov 384.2 +0.1 384.7 384.0 14,147 107,838
Dec 382.5 +0.1 383.0 382.2 94 2,382
Jan 386.6 +0.1 386.1 385.0 17 9,529
Feb 391.2 +0.1 391.8 391.5 118 10,934
Mar 393.7 +0.1 394.3 394.0 12 2,870
Total 15,465 192,034

PLATINUM NYMEX (50 Troy oz; \$/troy oz)

Sett. Day's price change High Low Vol. Open
Oct 412.9 +2.0 413.0 413.0 9 407
Nov 411.5 +2.0 412.0 410.6 2,215 20,159
Dec 412.0 +2.1 412.5 410.0 136 1,388
Jan 413.2 +2.1 412.7 412.7 3 1,811
Total 2,387 23,851

PALLADIUM NYMEX (100 Troy oz; \$/troy oz)

Sett. Day's price change High Low Vol. Open
Oct 135.95 +0.55 137.00 135.50 212 4,824
Nov 137.35 +0.55 137.50 136.75 98 1,111
Dec 138.70 +0.55 139.00 137.50 30 612
Total 308 1,625

SILVER COMEX (5,000 Troy oz; \$/troy oz)

Sett. Day's price change High Low Vol. Open
Oct 533.1 -0.5 533.0 533.0 40 40
Nov 535.2 +0.5 535.0 534.0 7,540 63,002
Dec 537.0 +0.5 537.0 536.0 40 25
Jan 542.9 +0.5 542.5 542.5 320 14,421
Mar 547.0 +0.5 547.0 546.0 10 6,823
May 550.9 +0.5 550.9 550.0 30 3,444
Total 7,947 115,812

ENERGY

CRUDE OIL NYMEX (42,000 US gals; \$/barrel)

Sett. Day's price change High Low Vol. Open
Oct 17.21 +0.06 17.21 17.21 43,068 107,012
Nov 17.07 +0.06 17.08 16.78 10,646 51,280
Dec 17.01 +0.06 17.00 16.77 3,146 22,707
Jan 16.97 +0.04 16.94 16.75 1,417 10,108
Mar 16.93 +0.01 16.93 16.77 122 1,232
May 16.89 +0.02 16.85 16.79 303 5,017
Total 105,918 288,824

CRUDE OIL LME (\$/barrel)

Sett. Day's price change High Low Vol. Open
Oct 15.94 +0.08 15.96 15.70 17,887 89,242
Nov 16.01 +0.07 16.03 15.84 4,427 35,571
Dec 15.77 +0.07 15.87 15.58 519 11,291
Jan 15.70 +0.07 15.87 15.52 57 7,076
Mar 15.65 +0.07 15.80 15.47 35 3,444
May 15.62 +0.05 15.75 15.40 24 1,818
Total 24,180 141,818

HEATING OIL NYMEX (42,000 US gals; \$/barrel)

Sett. Day's price change High Low Vol. Open
Oct 48.94 +0.35 49.05 48.10 9,849 30,170
Nov 49.30 +0.32 49.40 48.50 7,832 40,886
Dec 49.45 +0.32 49.40 48.75 1,538 12,289
Jan 49.61 +0.37 49.65 48.90 1,501 10,409
Mar 49.81 +0.37 49.80 48.15 500 7,089
Apr 47.81 +0.37 47.40 47.18 180 3,857
Total 24,384 118,338

GAS OIL LME (\$/barrel)

Sett. Day's price change High Low Vol. Open
Oct 14.25 +0.08 14.25 14.05 1,455 5,508
Nov 14.70 +0.08 14.70 14.50 1,455 5,508
Dec 14.70 +0.08 14.70 14.50 1,455 5,508
Jan 14.70 +0.08 14.70 14.50 1,455 5,508
Mar 14.70 +0.08 14.70 14.50 1,455 5,508
May 14.70 +0.08 14.70 14.50 1,455 5,508
Total 6,330 30,443

NATURAL GAS NYMEX (10,000 cu ft; \$/unit)

Sett. Day's price change High Low Vol. Open
Nov 1.775 +0.009 1.785 1.765 18,389 17,275
Dec 1.823 +0.009 1.833 1.803 6,065 30,495
Jan 1.874 +0.010 1.875 1.855 1,254 23,570
Feb 1.925 +0.008 1.935 1.915 1,254 23,570
Mar 1.976 +0.009 1.986 1.956 1,254 23,570
Apr 1.714 +0.003 1.710 1.700 335 5,209
Total 30,882 141,259

UNLEADED GASOLINE

Sett. Day's price change High Low Vol. Open
Nov 49.81 +0.11 49.85 49.60 8,454 18,150
Dec 49.36 +0.10 49.40 49.25 5,142 21,034
Jan 49.77 +0.07 49.80 49.55 1,538 12,289
Feb 49.88 +0.18 49.70 49.25 395 5,488
Mar 50.13 +0.13 49.70 49.70 70 2,089
Apr 52.73 +0.08 52.40 52.25 71 2,089
Total 16,881 68,730

GRAINS AND OIL SEEDS

WHEAT LCE (\$/cwt)

Sett. Day's price change High Low Vol. Open
Nov 121.85 +1.80 121.85 120.75 182 1,025
Dec 124.25 +1.35 124.25 123.25 309 2,084
Jan 128.25 +1.50 128.25 127.25 15 1,822
Mar 128.25 +1.50 128.25 127.25 113 1,158
Apr 128.75 +1.50 128.75 127.75 74 74
May 112.25 +1.50 112.25 111.25 21 21
Total 81 6,886

WHEAT CBT (5,000b; min. cents/50b bushel)

Sett. Day's price change High Low Vol. Open
Nov 520.00 -5.75 519.25 518.00 15,110 12,287
Dec 511.25 -5.75 510.50 509.25 7,550 30,884
Jan 477.50 +0.5 478.00 477.00 567 3,533
Mar 432.50 -0.5 433.00 432.00 1,879 12,913
Apr 433.00 -0.5 433.00 432.00 107 1,880
May 435.00 -0.5 435.00 434.00 104 581
Total 25,350 107,177

MAIZE CBT (5,000b; min. cents/50b bushel)

Sett. Day's price change High Low Vol. Open
Nov 330.00 -2.75 330.00 329.75 41,042 212,282
Dec 335.50 -2.75 335.50 334.25 25,920 172,161
Jan 335.00 -1.25 335.00 334.75 4,280 25,238
Mar 311.25 +0.5 311.25 310.25 1,111 611
Apr 285.75 -0.75 285.75 285.00 467 6,271
May 278.00 -0.5 278.00 277.00 2,689 29,986
Total 78,980 485,948

BARLEY LCE (\$/cwt)

Sett. Day's price change High Low Vol. Open
Nov 111.75 +1.00 111.75 111.25 90 518
Dec 114.00 +0.50 114.00 113.50 101 596
Jan 117.25 +0.5 117.25 117.00 111 611
Mar 119.25 +0.5 119.25 118.75 40 181
Apr 107.75 +0.25 107.75 107.25 32 748
May 111.00 +0.25 111.00 110.75 342 2,138
Total 342 2,138

SOYABEANS CBT (5,000b; min. cents/50b bushel)

Sett. Day's price change High Low Vol. Open
Nov 567.75 -4.5 567.25 566.75 45,164 63,535
Dec 578.25 -4.5 577.75 577.25 21,827 54,025
Jan 587.50 -4.5 587.00 586.50 6,722 26,404
Mar 592.25 -4.5 591

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INTERNATIONAL CAPITAL MARKETS

Political turmoil takes its toll on Italian sector

By James Harding and Richard Lapper in London and Lisa Branstetter in New York

Political turmoil in Rome took its toll on the Italian bond market yesterday, as the 1996 budget looked likely to be the first victim of a no-confidence motion in the government of Mr Lamberto Dini.

On a generally weak day for European bonds, even German bunds just failed to hold their ground despite the D-Mark's strength against the dollar.

The market's negative sentiment was a hangover from the weekend, as European traders came in on Monday morning to find US Treasuries lower than they left them on Friday.

European bonds continued to follow the depressed mood in New York, as profit-taking in the Treasury market after a recent bullish run pushed down prices.

Mr Ian Gunner, international economist at Chase Manhattan, explained the "subdued mood". "With Treasuries in corrective mode in the US and currencies weak against the D-Mark in Europe, the markets are just coming back a little."

An announcement from the hard-left Reconstructed Communist Party, formed from the old Italian Communist Party, that it plans to vote against the Dini government in Thursday's no confidence motion only undermined already shaky confidence in Italy's public finances still further.

"This is the worst scenario, no Dini, no budget," one London trader said.

The 10-year yield spread over German bunds edged towards the psychologically important 600 point level and the December Liffe contract fell 1.27 to settle at 98.94.

Analysts expected the yield spread would continue to widen, returning to the 625-650 point levels last seen in March. HSBC Markets envisages four possible scenarios in Italy: A snap election, "the worst-case scenario" for the Italian market; another stop-gap

GOVERNMENT BONDS

administration, unlikely but "more favourable"; a Dini resignation conditional on passing the budget, "market positive"; and Dini just holds on, "the best hope for the markets".

Nevertheless, HSBC concludes, "There is still downside risk at current levels".

German bunds slipped back in line with US Treasuries, but the December Liffe contract, sustained by technical support at its session lows of 95.77, bounced back to settle at 95.97.

The yield curve steepened as investors, attracted by the strength of the D-Mark, bought short-dated German paper.

Bund traders said the focus today is likely to be on the autumn reports from leading economic research institutes and inflation figures from Baden-Württemberg, both offering clues to future movements in monetary policy.

lost ground against the yen, shipping to Y99.63 from Y100.35.

Bonds also came under pressure as the Treasury prepared to auction \$17.75bn in two-year notes this afternoon and \$11.5bn in five-year notes on Friday.

Traders continued to look to Washington, where Congress and President Bill Clinton were wrangling over the shape of the government's budget - especially since no important economic data was expected.

A key issue was the US borrowing limit, which the Treasury was close to meeting - causing the government to reduce the size of the after-noon auction of three and six-month Treasury bills.

A higher limit is expected to be introduced in the new budget package and Congress was holding out against a temporary increase in the debt ceiling.

US Treasury prices slipped in early trading yesterday as the dollar weakened against the D-Mark and traders made way for more supply to come on to the market later today and tomorrow.

Near midday, the benchmark 30-year Treasury was 1/8 lower at 106 1/2 to yield 6.377 per cent. At the short end of the maturity spectrum, the two-year note was off 1/8 at 100, yielding 5.731 per cent.

The dollar suffered yesterday as traders moved holdings from Italian lire and French francs into the D-Mark, amid political uncertainty in France and Italy.

In early trading the dollar was changing hands at DM1.3830 compared with DM1.3976 late on Friday. It also

Prague to update market regulations

By Vincent Boland and Kevin Done in Prague

The Czech Republic is to make the first significant changes to the rules governing its capital markets since mass privatisation began in 1991.

The proposals, to be put to parliament shortly, are aimed at strengthening investor protection and improving market transparency.

However, they fall short of creating an independent watchdog to police the market and enforce legislation.

Brokers and investors have cautiously welcomed the changes but many said they will only be effective if the finance ministry, charged with overseeing the market but lacking expertise, enforces them fully.

The changes are designed chiefly to protect small investors, whose interests are often ignored by investment funds, the main shareholders in industry after privatisation.

Under the new rules holders of 10 per cent or more of one company must be disclosed; minority shareholders must be

offered buy-out terms when an investor takes 50 per cent plus one share in a company; and dividends must be paid, but bank instrument rather than cash in some cases.

They also allow for the creation of independent share registers and for shareholders to vote by proxy. The regulations are expected to become law by next February.

The proposals have been drafted by Mr Tomas Jozek, a member of parliament expected to become chairman of the Prague stock exchange after June's general election.

He said the existing rules, drawn up in the "transitional conditions" created to facilitate vouchers-for-shares privatisation, needed to be updated as the market evolved.

The exchange, with 1,700 quoted companies, is the largest among central Europe's emerging economies but is plagued by a lack of transparency which makes many investors suspicious. "These measures are necessary for the credibility and transparency of the capital market," Mr Jozek said.

Yen bond for Philippines power group

By Edward Luce in Manila

The Philippine National Power Corporation (Napocor) is to issue a ¥12bn eurobond in December. The 20-year debt, the longest maturity bond issued by the organisation since the Philippines returned to the debt markets in 1993, will be priced next month and underwritten by Nomura International in Hong Kong.

Napocor, which is due to be privatised next year, said low Japanese interest rates made it more attractive to issue in yen than dollars.

There will be an international roadshow from November 13 to 17. The closing and payment date for the issue is expected to be December 11.

Principal will be guaranteed by the Asian Development Bank in Manila and interest by the Philippine government.

EIB to make DM2bn seven-year offer this week

By Antonia Sharpe

The European Investment Bank, which has embraced the World Bank's method of giving the market advance notice about its benchmark deals, is set to raise DM2bn this week through an offering of seven-year eurobonds.

INTERNATIONAL BONDS

The issue, which is being arranged by CS First Boston and Deutsche Morgan Grenfell, is expected to be priced to yield between 5 to 8 basis points over the 7 1/2 per cent German government bond due 2002.

Many syndicate managers believe this will be the last large D-Mark deal this year.

Dr Ulrich Damm, director of capital markets at the EIB, said that although the bank had been very cost-sensitive in the past, the trend to launch-

ing bigger deals required a different strategy.

"We would like to improve our co-operation and communication with the market," he said. "By listening to the market we hope to satisfy all requirements."

The other big deal of the week is a \$1bn offering of global bonds for Ford Motor Credit Corp, which is being arranged by Goldman Sachs. The offering, Ford's first global since 1983, is expected to be priced to yield in the region of 50 basis points over US Treasuries. The deal is expected to be launched by tomorrow.

Among issues launched yesterday, DePfa Bank doubled the size of its recent DM500m offering of six-year eurobonds which had been launched at a yield spread of 20 basis points over bunds. Although the spread had tightened to about 15 basis points, yesterday's reopening was priced to yield 19 basis points.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount	Coupon	Price	Maturity	Yield	Spread	Book runner
US DOLLARS							
Banco Real	100	(a) 6.625	98.4599	Oct 2001	1.00R	+85/544-07	ING Bank
Banco Real	100	6.625	98.7399	Nov 2000	0.375R	+67W 5yr	Merrill Lynch International
D-MARKS							
DePfa Bank	500	6.25	100.51R	Oct 2001	0.275R	+19/8-44-01	CGI Bank
Brenner Landesbank	200	5.00	100.10R	Dec 1998	0.1675R	+125/9-98	Dawson Europe/Deutschland
SWISS FRANCES							
US West Communications	150	4.125	102.75	Nov 2001	2.25	-	SBC Warburg
LUXEMBOURG FRANCES							
International Finance Corp	200	28/80	70.50	Dec 2001	1.275	-	ABN Amro Lux / BGL / BIL
Deutsche Finance Nederland	200	5.875	102.60	Dec 1999	1.925	-	BGL
AUSTRALIAN DOLLARS							
Merrill Lynch & Co. *	100	7.81R	100.30	Nov 2000	0.30	-	Merrill Lynch International
Stoedon Australia	100	8.00	100.975	Dec 2000	2.00	-	Hambros Bank

Final terms, non-callable unless stated. Yield spread over relevant government bond at launch (supply-led manager). * Limited. Semi-annual coupon. R fixed rate offer price less shown at re-offer level. a) Callable and puttable at 100% and put respectively on 31/10/97 and 31/10/99. b) 105% to 31/10/97, then 110% to 31/10/99 and 115% thereafter. c) Fungible with DM500m. Plus 26 days accrued. d) Long 1st coupon.

Mr Frank Rühland, DePfa's treasurer, said the bank only had to raise a further DM2.5bn, about 10 per cent of this year's borrowing programme, by the end of the year. This amount would be raised opportunistically, he said.

Elsewhere, Yukong, a Korean

oil company, launched its first fixed-rate eurodollar offering, raising \$100m through a five-year deal priced to yield 5 1/2 basis points over when issued Treasuries. Lead manager Merrill Lynch said Yukong wanted to increase its access to European investors.

Standard & Poor's has assigned a rating of double-B minus to the long-term foreign-currency debt of Paraguay. S&P said the rating was downgraded by Paraguay's record of cautious macroeconomic management and its modest net external debt burden.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

	Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia	7.500	07/05	93.2000	-0.750	8.54	8.33	8.63
Canada	6.875	08/05	92.2000	-0.230	8.98	6.88	6.87
France	6.500	08/05	95.8500	-0.250	7.19	7.06	6.87
Germany	8.750	12/05	104.8500	-1.800	8.04	7.57	8.04
Italy	7.000	12/05	93.9500	-0.320	7.96	7.86	7.72
Japan	7.750	12/05	103.2500	-0.130	6.85	6.53	6.53
Netherlands	7.750	12/05	101.2500	-0.150	7.57	7.56	7.27
Spain	6.875	05/05	102.1900	-0.270	8.55	8.54	8.51
Sweden	6.250	10/05	97.6000	-0.130	8.26	8.22	8.07
UK	10.000	04/05	91.2000	-1.000	12.09	11.57	10.98
US 129	6.400	03/00	119.9500	-0.300	1.54	1.45	1.69
US 174	4.600	03/00	112.7300	-0.280	2.81	2.66	2.84
Netherlands	6.800	02/00	102.0200	-0.110	6.59	6.52	6.50
Portugal	11.375	02/05	103.0100	-0.510	11.21	11.01	10.98
Spain	10.000	02/05	94.0100	-0.850	11.02	10.88	10.55
Sweden	8.000	02/05	76.7500	-0.680	9.35	9.44	9.43
UK	8.000	12/00	101.12	-0.220	7.66	7.29	6.80
UK Gilt	8.500	12/05	101.29	-1.332	6.21	6.12	7.77
	9.000	10/05	105.13	-1.432	8.31	8.23	8.77
US Treasury	6.500	08/05	103.04	-1.532	8.07	7.96	7.17
	6.875	08/05	105.18	-2.122	8.39	8.31	8.00
US Treasury (FV)	7.500	04/05	96.1000	-0.280	7.78	7.78	7.56

London clearing, New York mid-day
Source: *Financial Institutions* (withholding tax at 12.5 per cent payable by investors)
Source: *Local Market International*
Source: *US, UK or Swiss, others as declared*

London clearing, New York mid-day. Yield: Local market standard. * Gross including withholding tax at 12.5 per cent payable by nonresident. Prices US \$100 or £100, unless otherwise stated. Source: M&I International

US INTEREST RATES

Rate	One month	Three month	Six month	One year	Two year	Three year	Five year	Seven year	Ten year	30 year
Prime rate	5 1/4	5 1/4	5 1/4	5 1/4	5 1/4	5 1/4	5 1/4	5 1/4	5 1/4	5 1/4
Bank discount	5 1/4	5 1/4	5 1/4	5 1/4	5 1/4	5 1/4	5 1/4	5 1/4	5 1/4	5 1/4
Federal funds	5 1/4	5 1/4	5 1/4	5 1/4	5 1/4	5 1/4	5 1/4	5 1/4	5 1/4	5 1/4
Fed funds at maturity	5 1/4	5 1/4	5 1/4	5 1/4	5 1/4	5 1/4	5 1/4	5 1/4	5 1/4	5 1/4

BOND FUTURES AND OPTIONS

France

NOTIONAL FRENCH BOND FUTURES (MATIF) FF500,000

Dec	Open	Settle	Change	High	Low	Est. vol	Open int.
Dec	114.84	114.84	-0.14	114.85	114.80	10,054	10,054
Jan	114.58	114.54	-0.14	114.58	114.40	1,992	5,399
Mar	114.06	114.54	-0.24	114.06	114.58	21	1,568

NOTIONAL FRENCH BOND OPTIONS (MATIF)

Strike	Nov	Dec	Mar	Nov	Dec	Mar
114	0.89	1.45	-	0.85	0.82	1.78
115	0.26	0.82	-	0.22	0.22	1.78
116	0.02	0.42	-	-	-	1.46
117	-	0.16	0.57	-	-	-
118	-	0.08	0.35	-	-	-

Est. vol. total: Calls 15,764 Puts 1,100. Previous day's open int. Calls 148,197 Puts 183,705.

Germany

NOTIONAL GERMAN BOND FUTURES (LIEFF) DM250,000 100ths of 100%

Dec	Open	Settle	Change	High	Low	Est. vol	Open int.
Dec	95.96	95.97	-0.14	96.02	95.77	100,053	200,653
Mar	95.30	95.39	-0.14	95.40	95.26	114	5055

NOTIONAL GERMAN BOND OPTIONS (LIEFF)

Strike	Nov	Dec	Mar	Nov	Dec	Mar
114	0.89	1.45	-	0.85	0.82	1.78
115	0.26	0.82	-	0.22	0.22	1.78
116	0.02	0.42	-	-	-	1.46
117	-	0.16	0.57	-	-	-
118	-	0.08	0.35	-	-	-

Est. vol. total: Calls 15,764 Puts 1,100. Previous day's open int. Calls 148,197 Puts 183,705.

UK Gilts Prices

NOTIONAL UK GILT FUTURES (LIEFF) £50,000 100ths of 100%

Dec	Open	Settle	Change	High	Low	Est. vol	Open int.
Dec	120.50	120.50	-0.16	120.50	120.34	1,310	8,860
Mar	119.38	119.38	-0.08	119.38	119.25	285	4,299

NOTIONAL UK GILT OPTIONS (LIEFF) £50,000 100ths of 100%

Strike	Nov	Dec	Mar	Nov	Dec	Mar
114	0.89	1.45	-	0.85	0.82	1.78
115	0.26	0.82	-	0.22	0.22	1.78
116	0.02	0.42	-	-	-	1.46
117	-	0.16	0.57	-	-	-
118	-	0.08	0.35	-	-	-

Est. vol. total: Calls 15,764 Puts 1,100. Previous day's open int. Calls 148,197 Puts 183,705.

BUND FUTURES OPTIONS (LIEFF) DM250,000 points of 100%

Dec	Open	Settle	Change	High	Low	Est. vol	Open int.
Dec	98.95	98.95	-0.12	98.95	98.83	49,633	49,633
Mar	98.40	98.64	-1.21	98.70	98.30	305	895

Est. vol. total: Calls 11,381 Puts 12,038. Previous day's open int. Calls 220,997 Puts 188,884.

Italy

NOTIONAL ITALIAN GOVT. BOND (BTF) FUTURES (LIEFF) Lit 200m 100ths of 100%

Dec	Open	Settle	Change	High	Low	Est. vol	Open int.
Dec	98.35	98.35	-0.12	98.35	98.23	49,633	49,633
Mar	98.40	98.64	-1.21	98.70	98.30	305	895

Est. vol. total: Calls 11,381 Puts 12,038. Previous day's open int. Calls 220,997 Puts 188,884.

Spain

NOTIONAL SPANISH BOND FUTURES (MEFF)

Dec	Open	Settle	Change	High	Low	Est. vol	Open int.
Dec	98.30	98.30	-0.57	98.30	97.90	51,594	1,735
Mar	97.90	97.94	-0.88	97.90	97.80	1	3

Est. vol. total: Calls 11,381 Puts 12,038. Previous day's open int. Calls 220,997 Puts 188,884.

UK

NOTIONAL UK GILT FUTURES (LIEFF) £50,000 100ths of 100%

Dec	Open	Settle	Change	High	Low	Est. vol	Open int.
Dec	104.29	104.23	-0.14	104.29	104.14	50,417	99,345
Mar	104.00	104.05	-0.14	104.00	104.00	6	335

Est. vol. total: Calls 11,381 Puts 12,038. Previous day's open int. Calls 220,997 Puts 188,884.

ABN - Cont[illegible]

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FT MANAGED FUNDS SERVICE

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fund Name	Unit Price	Change
Fidelity Currency Funds Ltd	1.00	0.00
...

GUERNSEY (REGULATED)**

Fund Name	Unit Price	Change
...

BERMUDA (REGULATED)**

Fund Name	Unit Price	Change
...

GUERNSEY (SIB RECOGNISED)

Fund Name	Unit Price	Change
...

IRELAND (SIB RECOGNISED)

Fund Name	Unit Price	Change
...

IRELAND (REGULATED)**

Fund Name	Unit Price	Change
...

ISLE OF MAN (SIB RECOGNISED)

Fund Name	Unit Price	Change
...

ISLE OF MAN (REGULATED)**

Fund Name	Unit Price	Change
...

JERSEY (SIB RECOGNISED)

Fund Name	Unit Price	Change
...

LUXEMBOURG (SIB RECOGNISED)

Fund Name	Unit Price	Change
...

LUXEMBOURG (REGULATED)**

Fund Name	Unit Price	Change
...

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<div>Global Investment Funds</div> <table><tr><td>Global Growth Fund</td><td>10.25</td><td>+0.01</td></tr><tr><td>Global Income Fund</td><td>10.15</td><td>+0.01</td></tr><tr><td>Global Bond Fund</td><td>10.10</td><td>+0.01</td></tr><tr><td>Global Equity Fund</td><td>10.05</td><td>+0.01</td></tr><tr><td>Global Dividend Fund</td><td>10.00</td><td>+0.01</td></tr><tr><td>Global Real Estate Fund</td><td>9.95</td><td>+0.01</td></tr><tr><td>Global Natural Resources Fund</td><td>9.90</td><td>+0.01</td></tr><tr><td>Global Healthcare Fund</td><td>9.85</td><td>+0.01</td></tr><tr><td>Global Technology Fund</td><td>9.80</td><td>+0.01</td></tr><tr><td>Global Energy Fund</td><td>9.75</td><td>+0.01</td></tr><tr><td>Global Financial Services Fund</td><td>9.70</td><td>+0.01</td></tr><tr><td>Global Consumer Goods Fund</td><td>9.65</td><td>+0.01</td></tr><tr><td>Global Industrial Fund</td><td>9.60</td><td>+0.01</td></tr><tr><td>Global Infrastructure Fund</td><td>9.55</td><td>+0.01</td></tr><tr><td>Global 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Fund	9.20	+0.01	Global Commodity Fund	9.15	+0.01	Global Alternative Assets Fund	9.10	+0.01	Global Multi-Asset Fund	9.05	+0.01	Global Fixed Income Fund	9.00	+0.01	Global Short-Term Bond Fund	8.95	+0.01	Global High-Yield Bond Fund	8.90	+0.01	Global Convertible Bond Fund	8.85	+0.01	Global Structured Portfolio Fund	8.80	+0.01	Global Target-Benefit Pension Fund	8.75	+0.01	Global Defined-Contribution Pension Fund	8.70	+0.01	Global Pension Fund	8.65	+0.01	Global Retirement Fund	8.60	+0.01	Global Wealth Management Fund	8.55	+0.01	Global Family Office Fund	8.50	+0.01	Global Private Bank Fund	8.45	+0.01	Global Private Equity Fund	8.40	+0.01	Global Venture Capital Fund	8.35	+0.01	Global Hedge Fund	8.30	+0.01	Global Commodity Fund	8.25	+0.01	Global Alternative Assets Fund	8.20	+0.01	Global Multi-Asset Fund	8.15	+0.01	Global Fixed Income Fund	8.10	+0.01	Global Short-Term Bond Fund	8.05	+0.01	Global High-Yield Bond Fund	8.00	+0.01	Global Convertible Bond Fund	7.95	+0.01	Global Structured Portfolio 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Equity Fund	6.60	+0.01	Global Venture Capital Fund	6.55	+0.01	Global Hedge Fund	6.50	+0.01	Global Commodity Fund	6.45	+0.01	Global Alternative Assets Fund	6.40	+0.01	Global Multi-Asset Fund	6.35	+0.01	Global Fixed Income Fund	6.30	+0.01	Global Short-Term Bond Fund	6.25	+0.01	Global High-Yield Bond Fund	6.20	+0.01	Global Convertible Bond Fund	6.15	+0.01	Global Structured Portfolio Fund	6.10	+0.01	Global Target-Benefit Pension Fund	6.05	+0.01	Global Defined-Contribution Pension Fund	6.00	+0.01	Global Pension Fund	5.95	+0.01	Global Retirement Fund	5.90	+0.01	Global Wealth Management Fund	5.85	+0.01	Global Family Office Fund	5.80	+0.01	Global Private Bank Fund	5.75	+0.01	Global Private Equity Fund	5.70	+0.01	Global Venture Capital Fund	5.65	+0.01	Global Hedge Fund	5.60	+0.01	Global Commodity Fund	5.55	+0.01	Global Alternative Assets Fund	5.50	+0.01	Global Multi-Asset Fund	5.45	+0.01	Global Fixed Income Fund	5.40	+0.01	Global Short-Term Bond Fund	5.35	+0.01	Global High-Yield Bond Fund	5.30	+0.01	Global Convertible Bond Fund	5.25	+0.01	Global Structured Portfolio Fund	5.20	+0.01	Global Target-Benefit Pension Fund	5.15	+0.01	Global Defined-Contribution Pension Fund	5.10	+0.01	Global Pension Fund	5.05	+0.01	Global Retirement Fund	5.00	+0.01	Global Wealth Management Fund	4.95	+0.01	Global Family Office Fund	4.90	+0.01	Global Private Bank Fund	4.85	+0.01	Global Private Equity Fund	4.80	+0.01	Global Venture Capital Fund	4.75	+0.01	Global Hedge Fund	4.70	+0.01	Global Commodity Fund	4.65	+0.01	Global Alternative Assets Fund	4.60	+0.01	Global Multi-Asset Fund	4.55	+0.01	Global Fixed Income Fund	4.50	+0.01	Global Short-Term Bond Fund	4.45	+0.01	Global High-Yield Bond Fund	4.40	+0.01	Global Convertible Bond Fund	4.35	+0.01	Global Structured Portfolio Fund	4.30	+0.01	Global Target-Benefit Pension Fund	4.25	+0.01	Global Defined-Contribution Pension Fund	4.20	+0.01	Global Pension Fund	4.15	+0.01	Global Retirement Fund	4.10	+0.01	Global Wealth Management Fund	4.05	+0.01	Global Family Office Fund	4.00	+0.01	Global Private Bank Fund	3.95	+0.01	Global Private Equity Fund	3.90	+0.01	Global Venture Capital Fund	3.85	+0.01	Global Hedge Fund	3.80	+0.01	Global Commodity Fund	3.75	+0.01	Global Alternative Assets Fund	3.70	+0.01	Global Multi-Asset Fund	3.65	+0.01	Global Fixed Income Fund	3.60	+0.01	Global Short-Term Bond Fund	3.55	+0.01	Global High-Yield Bond Fund	3.50	+0.01	Global Convertible Bond Fund	3.45	+0.01	Global Structured Portfolio Fund	3.40	+0.01	Global Target-Benefit Pension Fund	3.35	+0.01	Global Defined-Contribution Pension Fund	3.30	+0.01	Global Pension Fund	3.25	+0.01	Global Retirement Fund	3.20	+0.01	Global Wealth Management Fund	3.15	+0.01	Global Family Office Fund	3.10	+0.01	Global Private Bank Fund	3.05	+0.01	Global Private Equity Fund	3.00	+0.01	Global Venture Capital Fund	2.95	+0.01	Global Hedge Fund	2.90	+0.01	Global Commodity Fund	2.85	+0.01	Global Alternative Assets Fund	2.80	+0.01	Global Multi-Asset 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Fund	1.50	+0.01	Global Pension Fund	1.45	+0.01	Global Retirement Fund	1.40	+0.01	Global Wealth Management Fund	1.35	+0.01	Global Family Office Fund	1.30	+0.01	Global Private Bank Fund	1.25	+0.01	Global Private Equity Fund	1.20	+0.01	Global Venture Capital Fund	1.15	+0.01	Global Hedge Fund	1.10	+0.01	Global Commodity Fund	1.05	+0.01	Global Alternative Assets Fund	1.00	+0.01	Global Multi-Asset Fund	0.95	+0.01	Global Fixed Income Fund	0.90	+0.01	Global Short-Term Bond Fund	0.85	+0.01	Global High-Yield Bond Fund	0.80	+0.01	Global Convertible Bond Fund	0.75	+0.01	Global Structured Portfolio Fund	0.70	+0.01	Global Target-Benefit Pension Fund	0.65	+0.01	Global Defined-Contribution Pension Fund	0.60	+0.01	Global Pension Fund	0.55	+0.01	Global Retirement Fund	0.50	+0.01	Global Wealth Management Fund	0.45	+0.01	Global Family Office Fund	0.40	+0.01	Global Private Bank Fund	0.35	+0.01	Global Private Equity Fund	0.30	+0.01	Global Venture Capital Fund	0.25	+0.01	Global Hedge Fund	0.20	+0.01	Global Commodity Fund	0.15	+0.01	Global Alternative Assets Fund	0.10	+0.01	Global Multi-Asset Fund	0.05	+0.01	Global Fixed Income Fund	0.00	+0.01	Global Short-Term Bond Fund	-0.05	+0.01	Global High-Yield Bond Fund	-0.10	+0.01	Global Convertible Bond Fund	-0.15	+0.01	Global Structured Portfolio Fund	-0.20	+0.01	Global Target-Benefit Pension Fund	-0.25	+0.01	Global Defined-Contribution Pension Fund	-0.30	+0.01	Global Pension Fund	-0.35	+0.01	Global Retirement Fund	-0.40	+0.01	Global Wealth Management Fund	-0.45	+0.01	Global Family Office Fund	-0.50	+0.01	Global Private Bank Fund	-0.55	+0.01	Global Private Equity Fund	-0.60	+0.01	Global Venture Capital Fund	-0.65	+0.01	Global Hedge Fund	-0.70	+0.01	Global Commodity Fund	-0.75	+0.01	Global Alternative Assets Fund	-0.80	+0.01	Global Multi-Asset Fund	-0.85	+0.01	Global Fixed Income Fund	-0.90	+0.01	Global Short-Term Bond Fund	-0.95	+0.01	Global High-Yield Bond Fund	-1.00	+0.01	Global Convertible Bond Fund	-1.05	+0.01	Global Structured Portfolio Fund	-1.10	+0.01	Global Target-Benefit Pension Fund	-1.15	+0.01	Global Defined-Contribution Pension Fund	-1.20	+0.01	Global Pension Fund	-1.25	+0.01	Global Retirement Fund	-1.30	+0.01	Global Wealth Management Fund	-1.35	+0.01	Global Family Office Fund	-1.40	+0.01	Global Private Bank Fund	-1.45	+0.01	Global Private Equity Fund	-1.50	+0.01	Global Venture Capital Fund	-1.55	+0.01	Global Hedge Fund	-1.60	+0.01	Global Commodity Fund	-1.65	+0.01	Global Alternative Assets Fund	-1.70	+0.01	Global Multi-Asset Fund	-1.75	+0.01	Global Fixed Income Fund	-1.80	+0.01	Global Short-Term Bond Fund	-1.85	+0.01	Global High-Yield Bond Fund	-1.90	+0.01	Global Convertible Bond Fund	-1.95	+0.01	Global Structured Portfolio Fund	-2.00	+0.01	Global Target-Benefit Pension Fund	-2.05	+0.01	Global Defined-Contribution Pension Fund	-2.10	+0.01	Global Pension Fund	-2.15	+0.01	Global Retirement Fund	-2.20	+0.01	Global Wealth Management Fund	-2.25	+0.01	Global Family Office Fund	-2.30	+0.01	Global Private Bank 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Short-Term Bond Fund	-3.65	+0.01	Global High-Yield Bond Fund	-3.70	+0.01	Global Convertible Bond Fund	-3.75	+0.01	Global Structured Portfolio Fund	-3.80	+0.01	Global Target-Benefit Pension Fund	-3.85	+0.01	Global Defined-Contribution Pension Fund	-3.90	+0.01	Global Pension Fund	-3.95	+0.01	Global Retirement Fund	-4.00	+0.01	Global Wealth Management Fund	-4.05	+0.01	Global Family Office Fund	-4.10	+0.01	Global Private Bank Fund	-4.15	+0.01	Global Private Equity Fund	-4.20	+0.01	Global Venture Capital Fund	-4.25	+0.01	Global Hedge Fund	-4.30	+0.01	Global Commodity Fund	-4.35	+0.01	Global Alternative Assets Fund	-4.40	+0.01	Global Multi-Asset Fund	-4.45	+0.01	Global Fixed Income Fund	-4.50	+0.01	Global Short-Term Bond Fund	-4.55	+0.01	Global High-Yield Bond Fund	-4.60	+0.01	Global Convertible Bond Fund	-4.65	+0.01	Global Structured Portfolio Fund	-4.70	+0.01	Global Target-Benefit Pension Fund	-4.75	+0.01	Global Defined-Contribution Pension Fund	-4.80	+0.01	Global Pension Fund	-4.85	+0.01	Global Retirement Fund	-4.90	+0.01	Global Wealth Management Fund	-4.95	+0.01	Global Family Office Fund	-5.00	+0.01
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LONDON STOCK EXCHANGE

MARKET REPORT

Currency moves cause Footsie to fall again

By Philip Coggan,
Markets Editor

The UK stock market closed lower for the third consecutive trading session yesterday, as dealers reacted to volatility in the currency markets, weaker bond prices and the absence of bid activity.

The FT-SE 100 index fell 19.9 points to 3,531.5, and has now retreated 61.5 points since recording an all-time high last Wednesday. The Mid 250 index dropped 27 points to 3,912.5.

London started the day weaker, with shares suffering, along with the rest of Europe, in the face of the stronger D-Mark and weaker dollar.

The D-Mark gained from renewed concern about the political situation in Italy, economic policy in France and from doubts about progress towards European monetary union. Sterling declined around 1½ pence against the German currency during London trading.

Shares in hard currency countries were hit by the potential effect on exporters. In weak currency countries, shares were affected by fears that interest rates might need to rise to defend their currencies.

International bond markets were also weaker in the light of these currency moves, with the price of the 10-year benchmark gilt dropping by around half a point.

Some of the recent takeover enthusiasm appeared to dissipate, as a substantial bid in the financial sector failed to materialise. Mr Mark Brown, head of strategy and economics at ABN Amro Hoare Govett, said there is a takeover premium of around 10 per cent built into the UK market. "Some of that premium will stay, but a lot of it is speculative," he warned.

In the face of these worries, the Footsie was off 40.5 points by lunchtime at a day's low of 3,510.3.

It was not all bad news. The UK gross domestic product figures were as expected, with quarter-on-quarter growth of 0.5 per cent. However, the fall in the annual growth rate to

2.4 per cent (down from 2.8 per cent in the second quarter) means that the economy is growing at its slowest rate for two years.

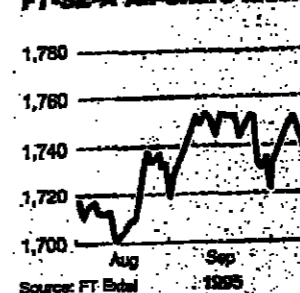
Nevertheless, some analysts were optimistic. "We expect the slowdown in the second and third quarters of the year to be little more than a pause as the lagged effects of the last two years' tax increases and rising interest rates reached their peak," said Mr Adam Cole, UK economist at broker Capgem.

Shares staged a rally in the afternoon, with considerable help from pharmaceuticals group Glaxo Wellcome, which settled patent legislation over its anti-ulcer drug Zantac. Glaxo's rise was equivalent to more

than 11 points on the Footsie. This allowed London to hold up quite well in the face of further weakness on Wall Street, where the Dow Jones Industrial Average was around 39 points lower at the close of London trading.

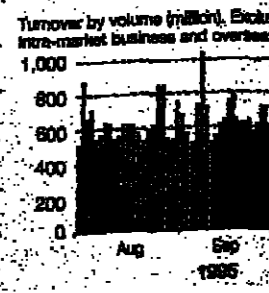
Volume was subdued, with just 522.4m shares traded by the 6pm count, and this gave some analysts cause for concern. Mr Tim Brown, UK market analyst at UBS, commented: "The market is just in one of those nervous periods. Most of the action has been in the form of marketmakers marking down prices; there has been little in the way of selling. Near term, the downside risk is minimal."

FT-SE-A All-Share Index



Source: FT Data

Equity shares traded



Turnover by volume (million). Excluding intra-market business and overseas business.

Source: FT Data

Indices and ratios

FT-SE 100	3531.5	-19.9
FT-SE Mid 250	3912.5	-27.0
FT-SE-A 350	1758.5	-10.4
FT-SE-A All-Share	1737.1	-8.7
FT-SE-A All-Share Yield	3.85	(3.92)

Best performing sectors

1 Pharmaceuticals	+13.5
2 Consumer Goods	+9.9
3 Paper & Print	+9.0
4 Health Care	+0.1
5 Water	-0.2

FT Ordinary Index

FT-SE-A Non Fin p/e

FT-SE 100 P/E Dec

52 wk High

Long gvt/yield ratio

2.83 (2.93)

Worst performing sectors

1 Insurance	-2.2
2 Extractive Inds	-1.4
3 Engineering, Vehicles	-1.4
4 Banks, Retail	-1.5
5 Textiles & Apparel	-1.5

Glaxo up as case settled

Shares in Glaxo Wellcome, the world's biggest pharmaceuticals group, kicked into life yesterday after the company announced settlement of a long-running patent dispute.

Against a market recording a 1 per cent fall at one stage, the stock jumped more than 6.5 per cent. The advance of 53.4 to 84.9p, on exceptionally high turnover of 23m shares, represented 11 points in the FT-SE 100 index and helped to turn around the overall market.

The company had been about to enter a potentially bruising court battle with Genpharm, of the US, over a challenge to the drug giant's principal product, Zantac.

Zantac, the anti-ulcer product which represents some 30 per cent of company sales, has a Form 2 patent which has another seven years to run. Genpharm had challenged the patent and the case was to go before a jury in Baltimore. Yesterday, Genpharm agreed to settle out of court.

Most analysts had forecast

Paul Diggle of SGST commented: "It is a big relief and although I am slightly surprised at how much the shares have risen, they were on a 20 per cent discount to the other sector leaders."

However, others commented that generic Form One rivals would still be released in the US in two years and much of the buying yesterday was little more than knee-jerk panicking by hedge funds wanting to close out short positions.

In any case the "relief" factor trickled over to other leading pharmaceuticals companies operating in the US. Zeneca advanced 20 to 119.5p and SmithKline Beecham "A" rose 4½ to 65.7p.

Rentokil wobbles

Support services leader Rentokil wobbled badly on news of top management changes in the US but clawed back to 33p, off 3½.

At a premium of 60 per cent, the shares have one of the highest p/e ratios in the Footsie and are fully exposed to anything that smacks of bearish news. The US accounts for around a tenth of profits and was showing signs of sales and margins pressure when Rentokil unveiled its interim results in August.

Royal Bank of Scotland slipped in early trading, following reports that Mr Peter Wood, the chief executive of the bank's Direct Line insurance arm, might set up a rival operation if the bank is taken over.

RBoS has risen sharply on takeover talk which tends to focus on the value of Direct Line, and Mr Wood's threat

could act as a poison pill in any takeover battle.

However, some analysts said the news could represent a pre-emptive strike by RBoS, thus confirming persistent rumours that a bidder was hovering. Consequently the shares recovered from their low to end only 5 down at 52.4p.

Insurance issues, boosted last week as speculation surrounding consolidation in the banking sector spilled over into other financials, fell back as the bids failed to materialise. General Accident tumbled 16 to 64.5p, with the shares going ex a 10.7p dividend. Sun Alliance fell 9 to 38.3p, Commercial Union 10 to 62.2p and Royal Insurance 5 to 39.0p.

The US oil majors reported third-quarter figures yesterday and Shell Oil, Royal Dutch/Shell Transport's US subsidiary, came out with a profit of \$41m. This was up from the same period last year and up

against the second quarter, in spite of worries over seasonal oil and petrochemicals.

The news is expected to impact on Shell Transport, but analysts were keeping their powder dry over forecasts until the Royal Dutch third-quarter figures are released next week. Shell Transport closed 6½ lower at 73.7p.

P&O managed to keep its head above water, gaining a penny at 46.7p, as investors honed in on the defensive qualities of an 8 per cent yield on a dull day for the overall market. Over the past month the stock has trailed behind the FT-SE-A All-Share index by more than 20 per cent.

British Airways fell 8 to 46.1p in advance of today's results statement from United Airlines (the US airline is bidding for USAir, 25 per cent owned by BA) and next week's traffic figures for October.

Inchcape, the Far Eastern

trader with a big motor distribution business, was one of the more active Footsie stocks, racking up turnover of 10m as the shares went ex the 6p interim dividend.

The shares were heavily dealt on Friday and some marketmakers suspected that dividend-related trading lay behind the flurry of activity. They closed at 31.2p, down 3 adjusting for the interim payout.

Northumbrian Water avoided the market weakness and rose 15 to 100.0p on expectation that the government would, this week, clear the way for a bid by Lyonnaise des Eaux, of France. Mr Ian Lang, president of the Board of Trade, is expected to allow a bid provided the merger leads to customer discounts.

Scottish Power receded 15 to 35.6p as underwriters of the £1.1bn bid for Manweb were left with shares to sell into the market. Some 40 per cent of Manweb shareholders had taken up the cash alternative, a far higher percentage than expected. Manweb shed 10 to 101.0p.

There were one or two bright spots among food retailers, notably Argyl Group, which managed to buck the market downturn on the day that its loyalty card was launched nationally. For the most part, however, the stores sector remained firmly out of favour.

W.H. Smith lurched lower following news that Tesco planned to put its distribution muscle into newspaper and magazines. Most analysts thought that Tesco would limit its assault to magazines, where the operating margins are widest, but even so the competitive pressure on Smith could be substantial.

Around a fifth of Smith's total profits arise from magazine distribution and retailing, and the shares fell 12 to 37.5p.

Boots, down 10 on Friday as a result of the Office of Fair Trading probe into non-pre-

scription medicines, came off a further 8 to 54.1p.

Kleinwort Benson turned negative on Great Universal Stores, down 7 to 56.9p on worries about the impact of National Lottery spending on mail order sales, which have lately shown signs of waning.

However, some analysts thought there might be more cheerful news to come in the short term. GUS holds its annual meeting on Friday and there was net betting that the group might combine news of top management changes with another return to shareholders, along the lines of the special dividend paid earlier this year.

Kwik Save added 7 to 88.1p and Argyl, which went national with its Added Bonus Card, gained 2 to 82.6p, but most food retailers moved lower. J. Sainsbury came off 2 to 40.8p and Tesco shed 3 lower at 28.9p in 2.5m trading.

Smith & Nephew held steady with a rise of a penny to 19.2p, on renewed consideration of the company's prospects as a takeover target.

LONDON RECENT ISSUES: EQUITIES

Issue	Price	Yield	Div.	Div. Yield	Div. Yield
50 F.P. 14.3	71	80	Consolidated Coal	125	-1
50 F.P. 14.3	71	80	Consolidated Coal	125	-1
50 F.P. 14.3	71	80	Consolidated Coal	125	-1
50 F.P. 14.3	71	80	Consolidated Coal	125	-1
50 F.P. 14.3	71	80	Consolidated Coal	125	-1

FT GOLD MINES INDEX

Gold Mines Index (24)	1815.17	-0.2	1815.45	2204.73	2.87	-2204.73	1815.01
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In Regional Indices

Alcoa (18)	2438.85	-1.6	2475.34	3711.87	4.48	21.14	3711.87
Alumina (18)	2238.82	-1.0	2237.44	3817.34	2.24	34.81	3817.34
North America (12)	1570.32	-0.7	1588.35	1781.81	0.88	43.35	1812.01

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FT-SE Actuaries Share Indices

The UK Series

Day's change

Oct 23

Oct 20

Oct 19

Oct 18

Year ago

Div.

Net cover

P/E ratio

Yield

Total Return

FT-SE 100

3531.5

-19.9

3531.5

3531.5

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FT
FINANCIAL TIMES

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INDEX FUT

WORLD STOCK MARKETS

EUROPE									
AUSTRIA (Oct 23 / Sch)									
ATX	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
BELGIUM-LUXEMBOURG (Oct 23 / Fra)									
BELEX-20	3,450.00	+20.00	3,470.00	3,430.00	3,450.00	3,450.00	3,450.00	3,450.00	3,450.00
DENMARK (Oct 23 / K)									
OMX	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
FINLAND (Oct 23 / M)									
HEX	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
FRANCE (Oct 23 / P)									
CAC 40	3,450.00	+20.00	3,470.00	3,430.00	3,450.00	3,450.00	3,450.00	3,450.00	3,450.00
GERMANY (Oct 23 / Dm)									
DAX	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
GREECE (Oct 23 / Drac)									
ATHEX	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
HOLLAND (Oct 23 / Gld)									
AEX	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
IRELAND (Oct 23 / P)									
ISEQ	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
ITALY (Oct 23 / Lit)									
FTSE-100	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
JAPAN (Oct 23 / Yen)									
Nikkei 225	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
KOREA (Oct 23 / Won)									
KOSPI	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
MALAYSIA (Oct 23 / Ringgit)									
FTSE-100	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
NETHERLANDS (Oct 23 / Gld)									
AEX	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
NORWAY (Oct 23 / Kroner)									
OSEX	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
POLAND (Oct 23 / Zloty)									
GPW	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
PORTUGAL (Oct 23 / Escudo)									
BVLX	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
ROMANIA (Oct 23 / Lei)									
BVB	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
RUSSIA (Oct 23 / Ruble)									
RTS	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
SOUTH AFRICA (Oct 23 / Rand)									
FTSE-100	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
SOUTH KOREA (Oct 23 / Won)									
KOSPI	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
SPAIN (Oct 23 / Ptas)									
IBEX	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
SWEDEN (Oct 23 / Krona)									
OMX	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
SWITZERLAND (Oct 23 / Fr)									
SIX	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
TAIWAN (Oct 23 / New Taiwan Dollar)									
TSEI	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
THAILAND (Oct 23 / Baht)									
SET	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
TURKEY (Oct 23 / Lira)									
BIST	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
UNITED KINGDOM (Oct 23 / Pound)									
FTSE-100	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
USA (Oct 23 / Dollar)									
Dow Jones	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
VIETNAM (Oct 23 / Dong)									
VSE	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
YUGOSLAVIA (Oct 23 / Dinar)									
BELX	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00

Rockwell builder of the space shuttle, also makes the majority of the fax and data modems in the world

Rockwell

INDICES									
Oct 23 1995									
Argentina	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
Australia	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
Brazil	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
Canada	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
France	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
Germany	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
India	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
Japan	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
Korea	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
Malaysia	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
Netherlands	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
Norway	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
Poland	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
Portugal	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
Romania	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
Russia	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
South Africa	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
South Korea	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
Spain	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
Sweden	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
Switzerland	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
Taiwan	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
Thailand	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
Turkey	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
UK	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
USA	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
Vietnam	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
Yugoslavia	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00

INDEX FUTURES									
Oct 23 1995									
Dec 1995	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
Mar 1996	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
Jun 1996	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
Sep 1996	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
Dec 1996	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
Mar 1997	1,210.00	+10.00	1,220.00	1,200.00	1,210.00	1,210.00	1,210.00	1,210.00	1,210.00
Jun 1									

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

4 pm close October 25

[[{"x": 0, "y": 850, "text": "When you travel as\nin BRUSSELS"}, {"x": 0, "y": 900, "text": "stay in touch -\nwith your complimentary copy of the"}, {"x": 0, "y": 960, "text": "FINANCIAL TIMES"}]]

NASDAQ NATIONAL MARKET

4 pm close October 23

[illegible]

4 pm close October 23

[illegible]

Condition	128	256	512	1024	16384	Inter Test	128	256	512	1024	16384	Inter Test
Control Data	1.28	1.23	1.02	1.14	1.13	InterData	0.24	1.17	1.233	1.65	1.63	1.63
0.50	1.8	2.97	1.84	1.84	1.84	InterData	6.11	1.94	1.24	1.13	1.73	1.73
0.25	1.8	1.8	1.8	1.8	1.8	InterData	23.275	1.8	1.64	1.64	1.64	1.64
0.125	1.8	1.8	1.8	1.8	1.8	InterData	19.129	1.8	1.8	1.8	1.8	1.8
0.0625	1.8	1.8	1.8	1.8	1.8	InterData	14.27	1.8	1.8	1.8	1.8	1.8
0.03125	1.8	1.8	1.8	1.8	1.8	InterData	11.014	1.8	1.8	1.8	1.8	1.8
0.015625	1.8	1.8	1.8	1.8	1.8	InterData	8.226	1.8	1.8	1.8	1.8	1.8
0.0078125	1.8	1.8	1.8	1.8	1.8	InterData	6.11	1.8	1.8	1.8	1.8	1.8
0.00390625	1.8	1.8	1.8	1.8	1.8	InterData	4.587	1.8	1.8	1.8	1.8	1.8
0.001953125	1.8	1.8	1.8	1.8	1.8	InterData	3.441	1.8	1.8	1.8	1.8	1.8
0.0009765625	1.8	1.8	1.8	1.8	1.8	InterData	2.587	1.8	1.8	1.8	1.8	1.8
0.00048828125	1.8	1.8	1.8	1.8	1.8	InterData	1.941	1.8	1.8	1.8	1.8	1.8
0.000244140625	1.8	1.8	1.8	1.8	1.8	InterData	1.441	1.8	1.8	1.8	1.8	1.8
0.0001220703125	1.8	1.8	1.8	1.8	1.8	InterData	1.071	1.8	1.8	1.8	1.8	1.8
0.00006103515625	1.8	1.8	1.8	1.8	1.8	InterData	0.791	1.8	1.8	1.8	1.8	1.8
0.000030517578125	1.8	1.8	1.8	1.8	1.8	InterData	0.587	1.8	1.8	1.8	1.8	1.8
0.0000152587890625	1.8	1.8	1.8	1.8	1.8	InterData	0.441	1.8	1.8	1.8	1.8	1.8
0.00000762939453125	1.8	1.8	1.8	1.8	1.8	InterData	0.331	1.8	1.8	1.8	1.8	1.8
0.000003814697265625	1.8	1.8	1.8	1.8	1.8	InterData	0.241	1.8	1.8	1.8	1.8	1.8
0.0000019073486328125	1.8	1.8	1.8	1.8	1.8	InterData	0.171	1.8	1.8	1.8	1.8	1.8
0.00000095367431640625	1.8	1.8	1.8	1.8	1.8	InterData	0.121	1.8	1.8	1.8	1.8	1.8
0.000000476837158203125	1.8	1.8	1.8	1.8	1.8	InterData	0.081	1.8	1.8	1.8	1.8	1.8
0.0000002384185791015625	1.8	1.8	1.8	1.8	1.8	InterData	0.051	1.8	1.8	1.8	1.8	1.8
0.00000011920928955078125	1.8	1.8	1.8	1.8	1.8	InterData	0.031	1.8	1.8	1.8	1.8	1.8
0.000000059604644775390625	1.8	1.8	1.8	1.8	1.8	InterData	0.021	1.8	1.8	1.8	1.8	1.8
0.0000000298023223876953125	1.8	1.8	1.8	1.8	1.8	InterData	0.011	1.8	1.8	1.8	1.8	1.8
0.00000001490116119384765625	1.8	1.8	1.8	1.8	1.8	InterData	0.001	1.8	1.8	1.8	1.8	1.8
0.000000007450580596923828125	1.8	1.8	1.8	1.8	1.8	InterData	0.001	1.8	1.8	1.8	1.8	1.8
0.0000000037252902984619140625	1.8	1.8	1.8	1.8	1.8	InterData	0.001	1.8	1.8	1.8	1.8	1.8
0.00000000186264514923095703125	1.8	1.8	1.8	1.8	1.8	InterData	0.001	1.8	1.8	1.8	1.8	1.8
0.000000000931322574611478515625	1.8	1.8	1.8	1.8	1.8	InterData	0.001	1.8	1.8	1.8	1.8	1.8
0.00000000046566128730573928125	1.8	1.8	1.8	1.8								

[illegible]

Jacobs Inc	1.08	1.4	167	30.4	290.2	30	+ $\frac{1}{2}$	James Int	1.0	490	13 $\frac{1}{2}$	13 $\frac{1}{2}$	13 $\frac{1}{2}$	- $\frac{1}{2}$	Pennstok	368	1808	48 $\frac{1}{2}$	44 $\frac{1}{2}$	48 $\frac{1}{2}$	+ $\frac{1}{2}$	
Jeb Shops	0.23	10	4	3 $\frac{1}{2}$	3 $\frac{1}{2}$	3 $\frac{1}{2}$		James Med	0.12	22	124	17 $\frac{1}{2}$	17 $\frac{1}{2}$	17 $\frac{1}{2}$	- $\frac{1}{2}$	Pfizer Inc	17	3918	17 $\frac{1}{2}$	17 $\frac{1}{2}$	17 $\frac{1}{2}$	- $\frac{1}{2}$
								Johns Corp	21	885	85	8 $\frac{1}{2}$	8 $\frac{1}{2}$	- $\frac{1}{2}$	Price Cos							
															Xerox	50	9932	46 $\frac{1}{2}$	42 $\frac{1}{2}$	45 $\frac{1}{2}$	+1 $\frac{1}{2}$	
															Zencom	4	1488	11 $\frac{1}{2}$	8 $\frac{1}{2}$	10 $\frac{1}{2}$	- $\frac{1}{2}$	

[illegible]

AMERICA

Dow lower, led by Europe, Canada, bonds

Wall Street

Weakness in global equities and in the US bond and currency markets led US shares lower in early trading, writes Lisa Branstetter in New York.

At 1pm the Dow Jones Industrial Average was off 33.96 at 4,760.90. The more broadly based Standard & Poor's 500 retreated 2.59 to 584.87, while the American Stock Exchange composite was 5.53 lower at 526.14. Volume on the New York SE amounted to 188m shares.

The technology-rich Nasdaq composite gave up 6.36 at 1,033.13.

Equities were mostly weaker across Europe and in Canada, and the US bond market continued the decline begun on Friday. In early afternoon trading the benchmark 30-year Treasury bond was off nearly half a point, sending the yield up to 6.375 per cent.

The dollar also slid against the D-Mark as political uncertainty in France and Italy caused investors to seek safe havens in the German currency.

In individual shares, Wells Fargo and First Interstate gave up some of the sharp gains made last Wednesday after Wells Fargo announced a hostile bid for First Interstate. Wells Fargo, which had been up more than \$8 by the end of last week, slipped 86¢ to \$21.65, and First Interstate shed 7¢ of its gain of nearly \$32 last week, bringing the shares to \$130.

Meanwhile, BankAmerica added \$1 at \$64 and NationsBank was \$% higher at \$70%.

Mexico upset by \$

Mexico City felt the effect of a weak US dollar and by midday the IPC index had fallen 23.43 or 1 per cent to 2,305.99.

Investors were also disappointed by third-quarter results from Banamex-Accival, the financial company, which reported 1.8 per cent.

SAO PAULO also contended with the US influence and by midday the Bovespa index had retreated 608 or 1.3 per cent to 46,080.

SANTIAGO made steady

amid speculation that the California and North Carolina-based banks might merge to form the largest bank in the US. The continuing wave of quarterly reports moved several shares. Nabisco shed \$1% to \$27 after reporting disappointing third-quarter earnings, while US Healthcare added \$1 at \$36% after reporting net income of 90 cents a share, a cent ahead of the mean analysts' estimate.

La California was up 3% or 9.5 per cent at \$26 after reporting third quarter earnings of 64 cents a share, 6 cents ahead of the mean estimate.

Quaker Oats showed little reaction to the news the company's president and chief operating officer, Mr Philip Marneau, had resigned. The shares, which had lagged behind the market this year, slipped \$% at \$34. Quaker was scheduled to put out its third quarter results on Thursday.

Canada

A selling wave spurred by fears that the separatists may win the October 30 Quebec referendum hit Canadian stock markets yesterday, writes Robert Gibbons in Montreal.

At 1pm the Toronto Stock Exchange 300 composite index was down 106.34 or 2.4 per cent at 4,331.99. The market, at this point, had lost about 4 per cent of its value in the past three trading days.

The financial services sector, down 3.5 per cent, oil and gas, off 2.5 per cent, and industrial products, 2.3 per cent lower, bore the brunt of the losses. At one point the index showed a drop of 109 points.

progress as investors awaited news about an egn of the GT Chile Growth Fund being held in Bermuda. The meeting was taking place after Regent Kingpin, a wholly owned subsidiary of Regent Pacific Fund Management, made a bid to take control of the fund, which is the largest foreign investment fund in the country. Soon after midday it was announced that GT Chile had defeated the motion. The IPSA index was ahead 0.8 per cent at 99.17.

EUROPE

Dollar, bond weakness hits Continental bourses

Falls in the dollar and bonds hit bourses almost indiscriminately. France and Italy, where domestic currencies were weak, had political and monetary problems of their own, writes Our Markets Staff.

FRANKFURT heard Mr Michael Camdessus, managing director of the International Monetary Fund, maintain that there did not seem to be any "serious" misalignment among major currencies at the moment; and Mr Ernst Welteke, a Buba council member, said that the German repo rate was unlikely to decline to 3.75 per cent as swiftly as had been assumed several weeks ago.

This was bad news for cyclical and defensive stocks respectively, and both suffered as the Dax index fell 31.36 or 1.5 per cent to an all-time low of 1,216.86; turnover rose from DM7.2bn to DM7.4bn.

Mr Matthias Welter, strategist at Merck Finck in Düsseldorf, said that the market had broken down through a 200-day moving average yesterday. "This," he said, "is usually a sell signal."

The put/call ratio reflecting options trades on the Deutsche Termimbörse had been rising in recent days, said Mr Welter; an extension of this trend could take it to a peak of pessimism, and suggest that shares were severely oversold. "However," he added, "if the dollar falls to DM1.34, or DM1.35, or worse, equities could really collapse."

PARIS was alarmed by the disclosure that Mr Jacques Chirac, the French president, might face prosecution in connection with a flat he had rented while mayor of Paris. Only a matter of a few weeks ago Mr Alain Juppé, the prime minister, had faced a similar threat which led to calls for his resignation.

This news was partly to blame traders said, for a fall in the franc and the expectation that the central bank might have to tighten short-term money rates in its defence. The CAC-40 index closed 19.58 down at 1,721.14 in turnover of FF3.4bn.

Général des Eaux provided one of the rare positive movements of the session as the shares recaptured some of Friday's losses.

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FT-SE Actuaries Share Indices

Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Europe 100	1384.39	1382.64	1381.89	1387.71	1385.35	1384.59	1384.16	1382.04
FT-SE Europe 200	1489.50	1490.36	1489.27	1494.01	1491.28	1490.52	1489.88	1478.08
FT-SE Europe 300	1589.47	1590.54	1589.54	1594.52	1591.34	1590.52	1589.88	1582.47
FT-SE Europe 400	1689.50	1690.36	1689.27	1694.01	1691.28	1690.52	1689.88	1678.08

THE EUROPEAN SERIES

Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Europe 100	1384.39	1382.64	1381.89	1387.71	1385.35	1384.59	1384.16	1382.04
FT-SE Europe 200	1489.50	1490.36	1489.27	1494.01	1491.28	1490.52	1489.88	1478.08
FT-SE Europe 300	1589.47	1590.54	1589.54	1594.52	1591.34	1590.52	1589.88	1582.47
FT-SE Europe 400	1689.50	1690.36	1689.27	1694.01	1691.28	1690.52	1689.88	1678.08

FFR11.30 or 2.7 per cent to FF423.10.

EIF-Aquitaine dropped FFR6.50 to FFR308.50 as the oil group announced that it would invest some FFR2bn in China by the end of the decade.

MILAN suffered after the Refounded Communists said that they would support Mr Silvio Berlusconi's no-confidence motion. This added further weight to fears that the government, led by Mr Lamberto Dini, would fall and provoke an early general election.

The Mibtel index fell 165 to 3,912, while the Comit index lost 15.78 or 2.6 per cent to 555.09. Montedison provided an exception with a rise of 1.3 to 1,100 which was attributed to a technical recovery from recent falls.

In the telecommunications sector Telecom Italia fell 1.33 to

L2.265, TIM L23 to L2.480 and Stet L106 to L1.320.

AMSTERDAM was unsettled although the commencement of trading in the second tranche of KPN, the telecommunications group, did provide some excitement.

The AEX index lost 5.88 or 1.2 per cent to 449.17, its lowest close since the middle of July. KPN ended off 20 cents at F154.80, below the F155.00 issue price that had been set by the government on Sunday.

Brokers said that sharp movement in the share price was unlikely as a share stabilisation programme had been built into the issue.

Currency considerations played a part elsewhere with Royal Dutch down F12.80 at F117.80 and Unilever off F12.30 at F1203.50. Akzo Nobel, still feeling the effect of a

warning by UK authorities about its oral contraceptive pill, lost F13.00 to F117.80.

Fokker remained relatively steady, off 20 cents at F17.00, following announcements from parent group Dasa. The German aerospace group detailed restructuring measures, but said these did not apply to its Dutch subsidiary.

ZURICH had been relatively strong, up 0.4 per cent last week when Frankfurt fell 2.6 per cent and Paris 4 per cent, but it paid for that, yesterday with the SMI index down 78.7, or 2.5 per cent at 3,041.7.

In banks, UBS and SBC bearers both fell by just under 3.5 per cent, by SFR43 to SFR1.202 and by SFR16 to SFR449 respectively; in industrials, SMI lost SFR31 or 4.2 per cent at SFR715.

MADRID fell 2.1 per cent, the general index losing 6.27 at 290.11. Banco Popular's proposed willingness to expand by acquisition did nothing for the share price, down Ptas600, or 3.2 per cent at Ptas18,100, but in the same sector, a sharp increase in nine-month profits at Banco Zaragozano left the shares unchanged at Ptas1,900.

STOCKHOLM and HELSINKI reflected the relative weak, and vulnerability of their

recent star performers in the high tech sector. Sweden's Ericsson B dropped SKr1.50 to SKr145 and the ABN-Amro General index by 25.8, or 1.5 per cent to 1,745.1.

However, Finland's Nokia As fell FM13 or 7.1 per cent to FM235, down from a 1995 high of DM340, and the Hex index dropped 82.93 or 4.2 per cent to 1,886.63.

OSLO was hit by worries that Norsk Hydro might have hit the top of its profit cycle. The total index fell 8.93 to 719.78, with Hydro-NK6.50 lower at NKr255.50 in spite of better than expected profits for the first nine months of 1995.

COPENHAGEN, with the KPX index off 1.27 at 98.73, focused on plans for a three way alliance involving Bilkuben, DKR1 at DKR182, Grobank, DKR10 lower at DKR272.

STANBUL eased, on profit taking as the market faced strong resistance near 40,000 support level. The composite index lost 362.45, or 0.7 per cent, to 48,697.17.

Turnover shrank to TL7,790bn from TL8,300bn.

Written and edited by William Cochrane and John Pitt

ASIA PACIFIC

Seoul declines by 2.3% on 'slush fund' allegations

Seoul dropped 2.3 per cent on allegations by a former aide of Roh Tae-woo that he had managed a Won46.5bn (\$63m) political slush fund for the South Korean president.

The composite index closed 31.11 lower at 976.38. Sunkyong and Dong Bang, linked to relatives of Roh, went limit-down. Sunkyong fell Won1,200 to Won20,200 and Dong Bang Won1,700 to Won27,800. The scandal also took its toll of construction and banking shares, the sub-indices falling by 3 per cent and 3.2 per cent respectively.

Buying of blue chips, such as Hyundai Motor, limited the fall in the afternoon, brokers said. Hyundai Motor finished just Won300 lower at Won41,500, after Won40,200. Posco touched Won65,000 before ending off Won300 at Won67,700.

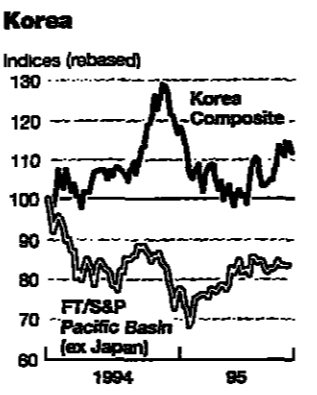
Tokyo

The dollar's decline below the ¥100 level prompted selling of export-oriented stocks, while lingering worries over the banking sector depressed financials, writes Emiko Terano in Tokyo.

The Nikkei 225 average closed barely changed, down 1.09 at 18,156.24, having fluctuated between 18,024.91 and 18,173.08. Export stocks, including car companies, fell back, while banks were sold on worries of a further rise in funding costs in overseas markets.

Volume was 301m shares, against 362m. The Toxip index of all first section stocks was off 0.57 at 1,445.16 and the Nikkei 300 finished just 0.08 up at 271.40. Declines outscored advances by 594 to 405, with 200 issues unchanged. In London the ISE/Nikkei 50 index shed 3.22 to 1,333.50.

Investors concentrated on



Source: FT Index

Bank Y40 to Y1,820 and Daiwa Bank Y16 to Y603.

The rise in the yen hit car manufacturers, with Mazda Motor dipping ¥11 to ¥338 and Suzuki Motor ¥20 to ¥1,070. Nissan Motor, however, rose ¥7 to ¥769, while Toyota Motor was unchanged at ¥1,920.

In Osaka, the OSE average slipped 23.41 to 19,499.07 in volume of 32.4m shares.

Roundup

Domestic affairs provided incentives for selling in a number of the region's markets. Singapore, Kuala Lumpur, Bangkok and Wellington were all closed for public holidays.

SYDNEY was affected by weaker base metal prices and nervousness ahead of tomorrow's CPI data, expected to show a significant increase in inflation. The All Ordinaries

index lost 17.5 at 2,089.30.

Coles Myer went against the trend, rising 5 cents to A\$1.47 ahead of confirmation that Mr Neil Clark, the outgoing chairman of Foster's, was set to become the retailer's new executive chairman.

Foster's, which was holding its annual meeting, shed 2 cents to A\$1.24. Shareholders of the brewing group were told that Carlton United was expected to make a strong contribution to its profits this year.

HONG KONG trading remained thin throughout the session. The Hang Seng index declined 14.71 to 9,880.33, off a day's low of 9,796.03. Turnover shrank to HK\$2.9bn from Friday's HK\$4bn.

MANILA's composite index breached its 2,500 support level, losing 16.19 at 2,555.17. Volume was huge, 10.06bn shares changing hands

although, as these were mainly small board issues worth a few centavos each, turnover was meagre at P12.84m pesos. Traders said that serious investors had opted to wait for the October inflation figures.

COLOMBO hit another 1995 low, the CSE all-share index finishing 5.83 down at 631.77. Brokers said investors were cautious after rebel attacks on two oil depots in Colombo, which closed the market on Friday.

SHANGHAI'S B market retreated on further disappointment with Friday's debut of Inner Mongolia Erdos Cashmere Products. The B index drifted off 0.7 per cent to 55.841, breaking through a technical support level at 56.

Erdos was unchanged at \$0.462, but in the session's highest volume of 5.37m shares.

Shanghai Tyre and Rubber, heavily weighted on the index, was the day's worst performer and the second most active stock, losing \$0.02 or 4.5 per cent at \$0.284. Traders said the 1995 interim results had been disappointing.

The A share index eased on profit-taking, having made 3.5 per cent on Friday, to finish off 0.4 per cent at 752.018.

TAIPEI gained ground on bargain hunting in the foods sector, which rose nearly 3 per cent as a group, but the market's light turnover indicated cautious sentiment due to continuing political worries.

The weighted index closed 37.46 or 0.7 per cent better at 4,975.44 in turnover of T\$19.5bn.

Elsewhere, the construction and paper sectors gained 1.5 per cent and 1.2 per cent respectively.

MARKETS IN PERSPECTIVE

	% change in local currency ↑			% change starting ↑	% change in US \$ ↑
	1 Week	4 Weeks	1 Year	Start of 1995	Start of 1995
Austria	-4.12	-7.31	-14.68	-18.06	-7.62
Belgium	-0.71	-2.32	+5.28	+4.22	+14.44
Denmark	-1.09	-0.84	+0.87	+1.16	+12.43
Finland	-8.52	-10.73	+9.23	+13.29	-25.97
France	-3.62	-2.27	-4.37	-4.92	+2.41
Germany	-1.11	-2.24	+2.85	+1.41	+11.62
Ireland	-1.32	+0.10	+17.33	+15.15	+19.27
Italy	-5.74	-10.80	-7.45	-9.24	-8.70
Netherlands	-1.20	-1.56	+10.53	+7.22	+18.10
Norway	-0.22	-0.45	+2.13	+1.11	+11.15
Spain	-2.04	-4.53	+0.78	+3.55	+11.76
Sweden	-2.07	-3.00	+23.19	+23.85	+36.22
Switzerland	+0.36	+4.02	+22.63	+18.00	+34.33
UK	-0.47	-0.82	+15.04	+15.09	+15.09
EUROPE	-1.45	-1.11	+8.86	+7.97	+14.23

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S African gold issues rally

Gold shares were supported by an improvement in the bullion price as industrialists drifted down from last week's high levels.

Dealers said there were few fresh fundamental aids to drive SAs to R215.50 and Timpala muted local interest the mar-

ket tracked overseas movements. The overall index made 6.5 to 5,833.2, with golds rising 13.8 to 1,349.3 and industrials losing 3.1 at 7,480.7.

Iscor declined 13 cents to R8.67, Vaal Reefs picked up R2.50 to R215.50 and Timpala Platinum shed R2.00 to R75.50.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by The Financial Times Ltd., London, and Standard & Poor's, New York. The indices are compiled by The Financial Times and Standard & Poor's in conjunction with the Institute of Actuaries and the Faculty of Actuaries, NatWest Securities Ltd. was a co-founder of the indices.

REGIONAL AND NATIONAL MARKETS Representatives show number of lines of stock	FRIDAY OCTOBER 20 1995										THURSDAY OCTOBER 19 1995										DOLLAR INDEX			
	US Dollar Index	Day's Change %	1 Week Sterling Index	4 Weeks Yen Index	DM Index	Local Currency Index	Local % chg on div.	Gross Div. Yield	US Dollar Index	Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	1994 low (approx)	1995 high (approx)							
Australia (82)	162.80	-0.5	171.98	115.15	132.85	102.02	-0.2	4.01	162.76	173.35	118.81	136.10	162.42	191.01	157.95	168.80								
Austria (27)	170.08	-0.5	159.98	107.57	123.00	123.69	-1.1	1.36	170.86	160.30	108.91	125.39	126.34	198.28	178.48	195.57								
Belgium (38)	194.19	-1.2	182.67	122.82	141.12	137.79	0.1	3.80	197.83	180.86	122.04	141.03	137.82	200.12	164.78	171.81								
Canada (100)	114.51	-1.4	121.47	76.94	102.14	102.78	-0.1	2.89	114.51	107.88	76.94	102.14	102.78	126.81	101.51	101.51								
Canada (100)	114.51	-1.7	132.21	98.96	102.14	107.06	-0.8	2.68	142.96	134.86	98.96	105.10	138.20	150.83	128.11	137.46								
Denmark (38)	198.98	-0.5	208.28	148.27	202.26	210.87	-0.5	1.54	283.70	267.80	180.00	208.27	211.49	296.99	236.51	261.74								
Finland (25)	235.95	-3.0	221.98	149.35	217.50	209.33	-4.1	1.53	240.90	230.82	155.57	178.98	218.95	276.11	171.13	198.17								
France (100)	188.74	-0.7	188.74	128.74	128.74	128.74	-0.7	1.89	188.74	188.74	128.74	128.74	128.74	188.74	128.74	128.74								
Germany (38)	151.14	-0.8	151.58	101.92	117.11	117.11	-0.3	2.04	159.81	150.76	101.87	117.11	117.11	147.99	167.74	135.39	148.84							
Hong Kong (25)	381.83	-1.0	359.19	214.49	277.50	279.06	-1.0	3.83	359.19	363.92	245.43	283.61	362.95	390.01	277.40	300.86								
Ireland (16)	247.84	-0.6	233.11	156.73	190.10	216.66	-0.5	3.48	247.83	233.19	157.67	182.01	217.41	290.55	195.34	209.86								
Italy (100)	168.74	-0.7	168.74	128.74	128.74	128.74	-0.7	1.89	168.74	168.74	128.74	128.74	128.74	168.74	128.74	128.74								
Japan (402)	148.25	-1.4	137.58	92.50	108.29	105.50	-0.8	0.82	144.18	136.01	91.73	106.00	91.74	144.18	136.01	163.81								
Japan (402)	148.25	-1.4	137.58	92.50	108.29	105.50	-0.8	0.82	144.18	136.01	91.73	106.00	91.74	144.18	136.01	163.81								
Malaysia (106)	471.80	-1.7	443.83	298.40	342.89	348.00	-1.6	1.79	484.00	437.73	298.21	341.13	415.69	561.96	388.19	559.52								
Mexico (18)	1005.47	-0.9	945.84	635.92	730.72	734.93	-1.0	1.69	1010.07	957.58	635.89	684.81	746.28	7418.16	2277.54	364.81	2277.54							
Netherlands (19)	200.00	-0.9	200.00	119.19	187.52	184.34	-0.4	3.54	255.79	241.31	162.74	188.06	204.84	263.99	207.60	217.18								
Netherlands (19)	200.00	-0.7	177.52	52.94	75.94	75.94	-0.3	1.29	177.52	177.52	52.94	75.94	75.94	177.52	52.94	75.94								
Norway (38)	238.98	-0.1	224.50	150.94	173.44	188.37	-0.4	1.93	238.98	225.14	150.94	173.44	188.37	263.99	192.92	208.36								
Portugal (34)	341.22	-0.8	349.21	234.79	268.74	264.79	-0.6	1.69	349.21	342.72	234.79	268.74	264.79	341.22	234.79	268.74								
South Africa (45)	364.30	-0.4	347.20	230.40	243.75	230.10	-0.6	4.02	365.82	345.20	232.81	268.01	291.95	368.82	218.08	346.34								
South Africa (45)	364.30	-0.4	347.20	230.40	243.75	230.10	-0.6	4.02	365.82	345.20	232.81	268.01	291.95	368.82	218.08	346.34								
Sweden (18)	317.18	-0.1	298.36	200.59	230.50	251.01	-0.9	1.90	316.74	298.21	201.32	232.86	317.73	320.43	225.80	240.83								
Switzerland (41)	223.54	0.8	210.28	141.38	162.45	165.15	-0.2	1.68	211.81	208.25	141.38	162.45	165.15	210.28	141.38	162.45								
Thailand (46)	163.17	-1.4	153.50	103.20	115.58	118.49	-1.5	2.58	165.57	156.19	106.34	121.73	161.32	-	-	-								
United Kingdom (207)	206.88	-0.1	212.49	142.87	164.17	171.29	-0.7	4.03	226.77	215.95	144.25	166.72	173.83	327.81	167.07	201.83								
United Kingdom (207)	206.88	-0.5	226.59	152.34	175.00	240.83	-0.5	2.44	222.06	223.35	150.92	177.94	242.04	242.04	242.04	180.63								
USA (649)	194.74	-0.5	226.51	138.97	189.49	188.40	-0.5	2.44	222.06	223.35	150.92	177.94	242.04	242.04	242.04	180.63								
USA (649)	194.74	-0.5	226.51	138.97	189.49	188.40	-0.5	2.44	222.06	223.35	150.92	177.94	242.04	242.04	242.04	180.63								
USA (649)	194.74	-0.5	226.51	138.97	189.49	188.40	-0.5	2.44	222.06	223.35	150.92	177.94	242.04	242.04	242.04	180.63								
Norway (38)	238.98	-0.4	277.01	182.30	209.25	243.77	-1.3	1.80	259.53	273.14	184.21	212.86	247.07	255.02	215.78	232.74								
Pacific Basin (632)	156.73	-0.1	147.44	99.13	111.91	102.98	0.7	1.26	154.86	146.16	98.59	113.82	102.27	173.52	145.98	172.72								
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BUSINESS LOCATIONS IN EUROPE

The importance of choosing the right site

Fierce competition increases the penalties for locating a business in the wrong place, says James Buxton

Ten years ago, a business location consultant explains, "you wouldn't have found the chief executive of a company getting involved in the detail of where to locate one of its plants or offices. Now you find chief executives want to see not only the final short-listed site, they want to stomp round all the short-listed sites."

It is a revealing illustration of the increasing importance now given to choosing the correct location for the offshoot of a business. Companies are continually making cross-border location decisions, but intensifying competition in the business world increases the penalties for locating an operation in the wrong place.

Several forces are driving companies to decide on new locations in Europe. First, the emergence from recession of the economies of the EU countries means that companies from the US and east Asia feel they need to have a presence in Europe if they do not already have one. According to John Siraut, a management consultant with Ernst & Young, "US companies are internationalising earlier in their corporate life than in the past."

Second, some companies whose operations are spread over several EU member states are now concentrating them in fewer countries because of the partial completion of the European Union's single market. In 1992, "This means you can service the EU from a smaller number of locations than you could in the past," says Mr Siraut. A manufacturing company may centralise its European distribution in one country, or choose to concentrate some of its support functions, such as

accounting, in one location instead of having them spread across Europe.

"It was predicted five years ago, it began happening three years ago, it's continuing but some companies are now backing off," says Wilfried Vossen, of Plant Location International, an offshoot of Price Waterhouse in Brussels. "I've come across cases where people did it because it was fashionable and came to regret it."

The third force driving the hunt for new locations is inward investment. Flows of investment into Europe from companies in the US and east Asia were \$62.4bn last year, according to the Bank for International Settlements.

This is slightly less than the peak of \$73.6bn reached in 1991 and in the following years, but far above the levels attained in the early 1980s. The figure does not count cross-border investment by one European country into another which, particularly in the case of outward investment by Germany, has been substantial. Out of 270 inward investment projects in Europe in 1993-94, 159 came from European countries.

The UK does best of all European countries in obtaining inward investment. It may currently be receiving as much as 40 per cent of all foreign direct investment coming to Europe, its recent big inward investment successes include Samsung of South Korea, and investments by Siemens of Germany, NEC and Fujitsu of Japan, and Motorola and Ford of the US (the latter through its subsidiary Jaguar).

London also continues to be viewed as the top European city in which to locate a business, according to the annual survey conducted among 500 companies for Healey & Baker, the property consultants. It was ahead of Paris, Frankfurt and Brussels on a weighted score of factors which included communications and costs, which were rated above qual-

ity of life by the executives asked.

The UK has the advantages of the English language, an extremely open business environment, relatively low labour costs and flexible employment practices. "In several other countries it's difficult to secure such things as seven days a week working," says Mr Vossen. "That has never been a problem in the UK."

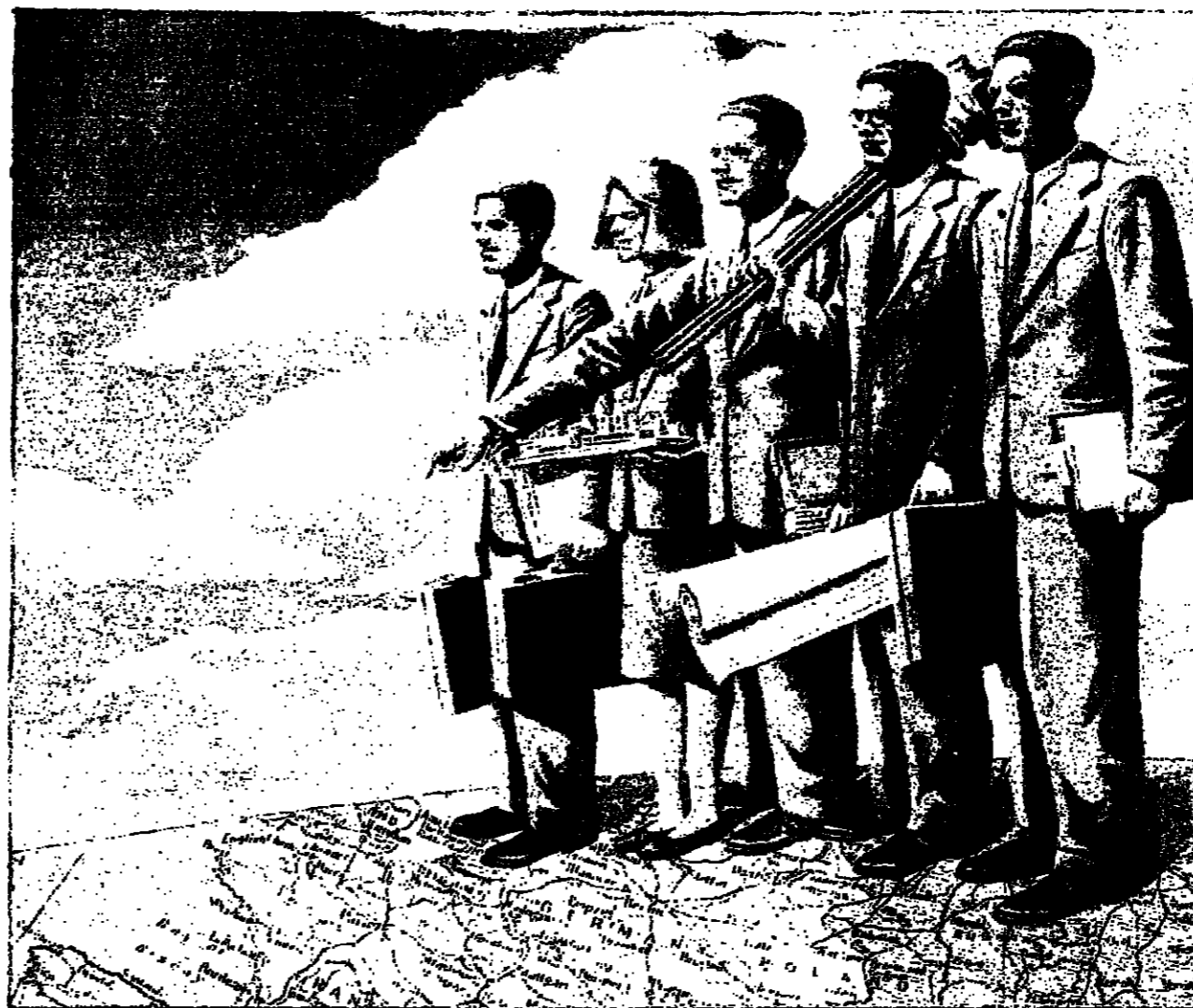
However, France is improving its performance in attracting inward investment, gaining in 1994 the \$500m Mercedes/Watch car project and a significant offshoot Daewoo of South Korea.

According to Mr Vossen, the French authorities are learning the UK's inward investment agencies that leading companies want large high amenity sites of which the plant itself may only occupy a small part. This desire, he says, also favours Ireland (which like the UK benefits from having the English language) but militates against the Netherlands, Belgium and Luxembourg which do not have much spare land and whose environmental consciousness - "ecomania", as Mr Vossen puts it - may limit their ability to meet the needs of incoming companies.

The very high costs of operating in Germany are a severe disincentive to any company wishing to locate a "mobile" investment there - a project not tied for market reasons to a particular country. German companies are investing in the UK and elsewhere partly for this reason.

Bernard Pischetsrieder, chairman of BMW which owns Rover, said this month that Britain was "the most attractive among all European locations" for car production. "This results from the structural reforms initiated in the early 1980s by [Lady] Thatcher."

Of the other leading EU countries Italy is not a strong performer in winning mobile inward investment and Spain



has been down-graded after some companies located there suffered bad labour relations experiences.

Meanwhile, eastern European countries are making their mark as inward investment locations. The most favoured countries are Hungary, the Czech Republic and Poland, which are gaining investments thanks to their skilled workforces and labour costs which may be only one-tenth of those in Germany, where many of the investments originate.

According to Ernst & Young's publication Regions of

the New Europe there are probably more than 1,000 agencies in Europe which have "as their sole or key objective" the attraction of inward investment.

Given the "noise" these bodies may generate, it is important that companies making a location decision are "clear in their own minds on what they want to get out of the investment," says David Hadfield of Coopers & Lybrand.

Location consultants agree that the two most important considerations for companies choosing where to site a new manufacturing plant are, first,

access to the market they wish to serve, and, second, the cost and flexibility of labour. The issues of grants and incentives come lower on the list of priorities.

"For many companies grants and incentives are just the icing on the cake," says Mr Siraut. "The companies that only shortlist countries which offer grants are not in the majority - a few are even put off by a hard sell on grants by an inward investment agency."

Whereas politicians often have an eye to the short-term benefits they gain from announcing big inward invest-

ment projects, companies are looking for a location that will be profitable over 25 years, Mr Siraut says.

Location consultants acknowledge that a cutthroat game of poker is often played in which big companies may use their international clout to win higher grants and other concessions. But Mr Hadfield notes that the biggest grant does not always win the day for a country trying to win investments.

Siemens, he points out, was offered larger grants by Austria than by the UK to locate its new microchip plant on

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Illustration: Bill Butcher
Map and graphics:
Bob Hutchison

Foreign direct investment by Graham Bowley

Fight for foreign cash intensifies

Companies interested in new overseas bases are turning to developing economies

Foreign direct investment (FDI) into Europe slowed during the world recession of the 1990s as demand within the continent declined and companies in North America and Asia scaled back to address problems closer to home.

As world economic growth has recovered, so has the volume of inward investment flowing into Europe, although it is still below its peak of 1991. More and more companies, particularly from the fast-growing countries of Asia, are looking to internationalise their operations and Europe is among the preferred locations.

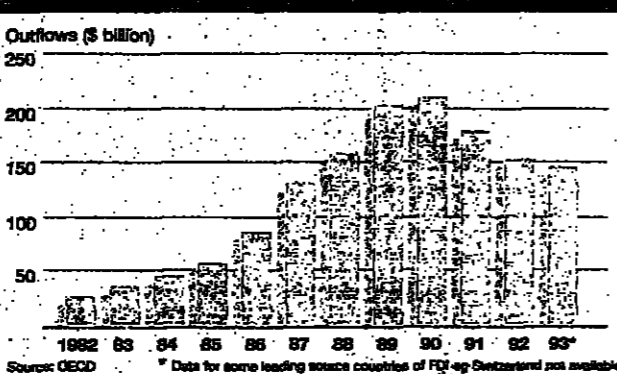
The on-going liberalisation of world economies is assisting this flow of investment. European governments, too, are playing an increasingly active role in attracting foreign investors. They face growing competition - from Asia, the Middle East and from the former communist countries, which in many cases offer an alluring low-cost base close to growing markets.

According to the Basle-based Bank for International Settlements (BIS), total inflows into Europe were around \$62.4bn last year. This is below the levels seen in previous years - \$97bn in 1993, \$72.2bn in 1992 and the 1991 peak of \$73.6bn. But it is still above the levels in the 1970s and 1980s: BIS estimates that the annual average between 1976 and 1980 was \$14.3bn, which grew to \$80.5bn between 1986 and 1990.

The resumption in FDI flows has seen a re-emergence of some of the trends that dominated before the downturn. The US, France and UK are once again the leading sources of outward FDI. According to the BIS, total FDI outflows last year were more than \$230bn, with the US contributing most to this flow with around \$60bn, followed by the UK with \$30bn. North America remains the largest contributor of direct investment into Europe, a trend that looks set to continue, despite signs that companies from other regions are increasingly seeing Europe as a base for their operations.

Within the continent, France, the UK, Belgium and Luxembourg remain the main beneficiaries of inward invest-

Direct investment abroad from OECD countries



ment from abroad. Spain, Germany and the Netherlands make up the second tier, along with, on some measures, Ireland.

What has changed in recent years, however, is a growing redirection of flows from the developed towards the developing world. Last year, emerging economies again attracted an increased share of FDI, according to the BIS, with inflows reaching a record \$104bn - more than 40 per cent of total global flows.

The vast majority of this is accounted for by investment into a small group of countries in Latin America and South East Asia, with China the leader in the field.

However, the pick-up in investment flows into the former communist economies of Eastern Europe, although perhaps not as strong as initially

anticipated, has also been marked.

According to a survey of investment patterns by Ernst & Young, the accountancy firm, 20 per cent of US investment into Europe is now going to the former communist Eastern bloc countries.

Figures published this month by the UN's Economic Commission for Europe (ECE) bear out this pattern. They show that total FDI to 15 former communist states in the region grew by 24 per cent to \$22.7bn compared with \$18.3bn at the end of 1993.

The ECE, however, notes that this is focused on a handful of economies - the Czech Republic, Hungary, Poland, Slovakia and Slovenia. Hungary was by far the largest recipient of investment - with \$3.7bn at the end of 1994, more than twice as much as that

flowing into Poland.

"The opening up of central and eastern Europe and the recent votes on European Union have had a major impact on flows of foreign direct investment," according to Regions of the New Europe, an Ernst & Young report published earlier this year. Ernst & Young finds evidence that companies in Norway and Switzerland are considering moving their operations into EU countries following their countries' decision to stay out of the European Union and the European Economic Area respectively.

The Ernst & Young report also notes that another factor that could soon start to attract substantial amounts of FDI, thus increasing the competition for international investment flows, is the Mediterranean countries of Tunisia, Israel, Palestine and the fast growing economy in the region, Turkey.

To a certain extent, overseas investment by Japanese companies has also shifted away from the more traditional targets for investment in Western Europe.

Last year, Japanese investments in Asia for the first time exceeded those in Europe, with China being a particular focus. According to BIS, Japanese outward investment flows, which declined during the recession, picked up last year to \$18bn, although this is still below the high rates in the late 1980s when Japanese companies invested heavily in the US.

The signs are that Japanese companies' investments abroad look set to grow further, encouraged by the continued strength of the Japanese yen. Their investments overseas are a means of countering the negative impact of the high yen on earnings and on their international competitiveness. They are also a way of winning market share in countries where the prospects for growth appear better.

Ernst & Young also foresees that the increased internationalisation of companies in the Indian subcontinent and Latin America might soon lead to a growth in investment into Europe from these regions, although at low levels.

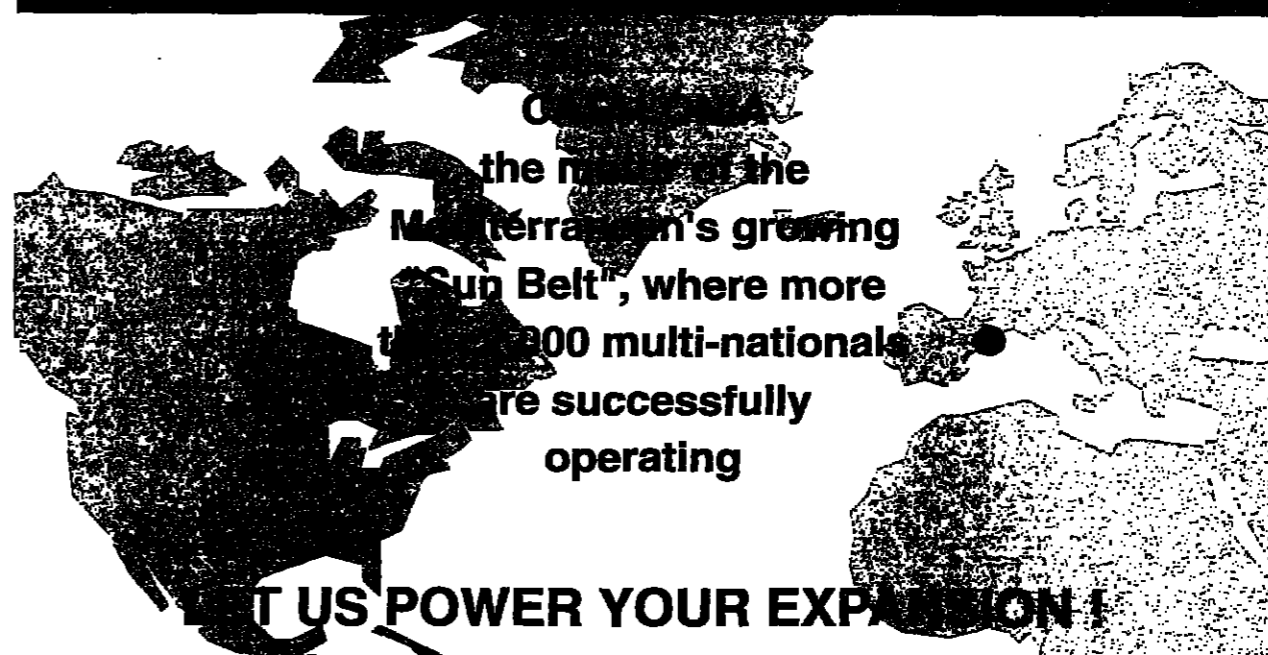
Foreign direct investment flows between European countries have also changed in recent years - intra-European investment flows are still greater than any of the flows from countries outside Europe.

Inward investment flows into Europe (\$bn)

Location	1990	1991	1992
European Union			
Austria	653	360	947
Belgium/Luxembourg	8,056	9,377	11,073
Denmark	1,132	1,563	1,073
Finland	612	220	367
France	13,223	15,149	21,849
Germany	6,390	7,380	6,800
Greece	1,005	1,135	1,144
Ireland	n/a	n/a	n/a
Italy	6,441	2,403	3,072
Netherlands	11,544	8,201	6,606
Portugal	2,610	2,446	1,873
Spain	13,841	10,502	8,058
Sweden	1,972	5,751	329
UK	32,689	18,158	16,182
Rest of Europe			
Bulgaria	4	56	42
Estonia			58
Former Czechoslovakia	207	800	1,103
Hungary		1,482	1,479
Lithuania			14
Norway	1,003	(436)	887
Poland	89	291	678
Romania		40	77
Russian federation			700
Switzerland	4,951	3,178	1,033

Parentheses imply disinvestment in a country Source: UN World Investment Report 1994

THERE IS A PLACE IN EUROPE THAT OFFERS YOU MORE THAN 2,000 REASONS TO INVEST IN



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2 BUSINESS LOCATIONS IN EUROPE: Inward investors

■ Case study: Du Pont

A \$1bn plant in Spain

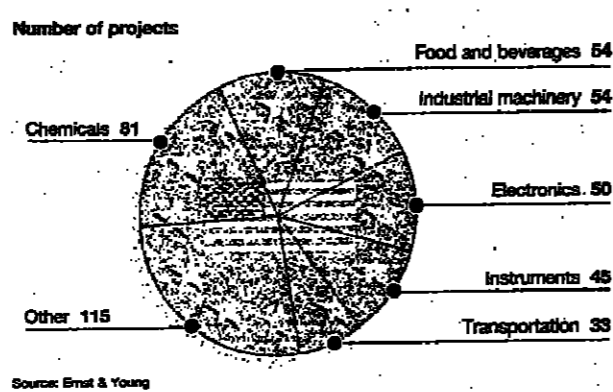
Tom Burns looks at a decision to locate a plant where General Electric had feared to tread

In the autumn of 1987, Luis Carlos Croissier, Spain's industry minister at the time, was eagerly awaiting a meeting with the top executives of the US corporation General Electric that would seal a significant investment by its plastics division in Asturias, northern Spain. When Jack Welch, GE's chief executive, arrived in Madrid, Mr Croissier learned to his disappointment that the deal was off.

Mr Welch had flown over the proposed location, discovered that the new plant would be surrounded by the coal mines and the heavy steel works that blight the decaying industrial landscape of Asturias and decided, on the spot, that the proposed plastics facility had to be sited elsewhere. "Mr Welch feared that Asturias would somehow contaminate GE's image and culture," Mr Croissier recalls.

OE Plastics eventually sited its plant in Cartagena, south-east Spain, and, to Mr Croissier's relief, Du Pont, the chemical giant, rushed in where Mr Welch had feared to tread. By March 1990, Ed Woolard, Du Pont's chief executive, had

US investment in Europe, 1993



Source: Ernst & Young

in the direction of Asturias. What Asturias's industrial tradition ensures is qualified personnel rather than old-fashioned working practices. Du Pont made a painstaking selection to build up its 350-strong labour force devoting up to 100 hours of interviews per every new employee and hiring one out of an average 80 candidates for each job. The plant's staff has since developed advanced working systems based on self-organising teams that work to targets, on an absence of demarcation lines and on multi-functional responsibilities.

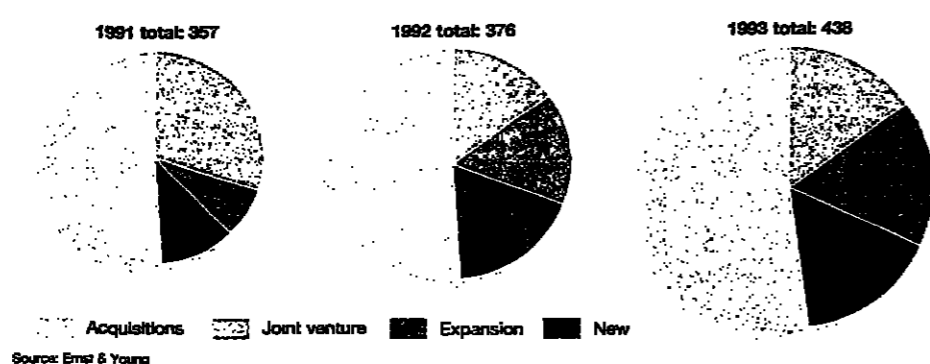
Asturias also offered good facilities in terms of schools, housing and leisure possibilities - outside the rust belts the area has arguably the most stunning mountain scenery in western Europe - that multi-

European Union average, and Spain, which offered political stability as well as economic excitement, was very much favoured by investors in those years.

The incentives that were available were important but by no means decisive. Asturias, as a priority restructuring zone under the EU guidelines, could offer the maximum subsidies allowed by Brussels and these worked out as representing some 30 per cent of total investment. The Spanish authorities gave the 324ha greenfield site free to Du Pont, picked up the bill for the basic infrastructure required by the site, and, in addition to straight funds, provided tax incentives, low cost loans and training schemes.

Far more decisive factors

Entry methods chosen by US companies in Europe



Source: Ernst & Young

signed a letter of intent with the Spanish government to develop a greenfield site in Asturias that would initially produce Nomex, a synthetic fibre that is used in the manufacture of flame protective garments and of heat-resistant insulators and filters.

The \$1bn Du Pont plant stands in a lush valley not far from Avilés, the site of a huge and mostly obsolete state-owned steel works, and time appears to have proved that there was nothing foolish about Du Pont's decision to set up in the location that GE had rejected. Visiting it earlier this month Mr Woolard said it was a "plant of the 21st Century" and a "world class performer".

The rust belt factor that worried Mr Welch never bothered Mr Woolard, for Du Pont has set up plants in northern Europe sites, such as the Dunkirk area, that share a similar environment. The industrial culture of an area is counted as a positive factor by Du Pont and this, together with the other elements of the chemical producer's package of business location criteria, pointed firmly

nationally require for expatriate employees who may spend up to four years at the plant. During its start-up phase, the Asturian site brought together up to 120 expatriates representing 30 nationalities.

Du Pont's undertaking to open for business in Asturias was the consequence of a prior strategic decision to establish a manufacturing site in southern Europe and therefore to analyse possible locations in Italy, the south of France, Portugal and Spain.

With existing sites in Ireland, the UK, the Netherlands, Germany and the Pas de Calais, Du Pont had taken the view that its production was excessively weighted towards northern Europe and that it should be industrially present in southern Europe which is where it expected a greater growth in the markets for its products.

Asturias subsequently scored highly on account of the strong growth at the time of the Spanish economy. Between 1988 and 1990, Spain's GDP was growing at around 5 per cent, which was more than double the

were the encouragement that Du Pont received from Spanish officials and the availability of good resources that it discovered in Asturias.

The crucial element of the backing that the US corporation obtained in Spain was the fluid and positive communications framework that it jointly established with the national government and with the local authorities. This allowed Du Pont to cope with the always baffling and occasionally contradictory sets of legal requirements and layers of bureaucracy that blight the start-ups of large production plants.

In Asturias, Du Pont discovered it had good port facilities at Avilés and at the much larger port of Gijón which has one of the best efficiency records along Spain's northern coastline. It also had abundant local water, natural gas inputs together with the possibility of developing co-generation facilities, a vital requirement for chemical sector sites, thanks to two main transformers to the national grid which both lay within a 20km radius.

Ringtel Electronics

A Taiwanese first for Wales

Mr Fang breaks new ground

In a spotless new factory, Brian Fang, a Taiwanese businessman, is hard at work planning the start of production early next year. When he has time to glance out of his office window, he has a grandstand view of the green hills of Wales.

Mr Fang is managing director of Ringtel Electronics (UK), the first Taiwanese manufacturer in Wales and one of only a handful in Britain. Investment in the UK from east Asia has been dominated by the Japanese, but Korean, Hong Kong and Taiwanese companies are beginning to make their mark.

Some are substantial projects: Samsung, the Korean industrial group, is committed to a £450m complex on Teesside; QPL International Holdings of Hong Kong is setting up Asat (UK), a £42m electronics factory, in Wales. Compared with such schemes, Ringtel is modest - a £2.45m investment and planned employment of 100 people within three years. But it is more typical of inward investment than the big headline-grabbers.

The plant will be Ringtel's European manufacturing base and will make the same telecommunication connectors and cordage as its parent, a family-owned company. Apart from one factory in Malaysia, it will be the company's only overseas facility.

Mr Fang, also the parent's managing director, says the move to Europe is a consequence of the need to expand production. In Taiwan, the manufacturing processes are spread around several factories which are working to capacity. He wanted a new plant with everything under one roof to reduce costs and improve productivity.

He considered a foreign location mainly because of the tight labour market in Taiwan. Europe was an obvious choice because it is the company's main direct foreign market. Customers include Alcatel of France and a European presence would enhance the prospects of winning more customers.

Mr Fang favoured the UK because he spoke English and "I've been a visitor to the country many times in the past 10 years". It was at this point, nearly two years ago, that he was approached by Ashley Elmes, the Welsh Development Agency's representative in Taipei. Mr Fang also considered Northern Ireland but was deterred by the then political uncertainties and its distance from European continental markets.

After being shown a variety

of Welsh sites, Mr Fang selected a 50,000 sq ft unit owned by the WDA at Cwmbran in Gwent, south-east Wales. "It was a big box - which gave Brian the opportunity to design the facility as he wanted," says Allan Martin, general manager. "He could effectively create his own factory."

The WDA agreed to a rent reduction for two years and an option to buy the freehold. There is adjacent land for future expansion. Most of the investment is financed out of the company's resources but another inducement was a Welsh Office grant, linked to financial and employment criteria. The amount has not been disclosed but it is substantial. "It is an attractive package for me, but I'm not here because of the grant," Mr Fang says. "I could have picked another area where there would have been more grant."

The deciding factor was the factory's location, five minutes' drive from the M4 motorway between Wales and England. Nearby there is a cluster of telecom companies such as Panasonic of Japan - Mr Fang can see its plant from his window - and Nortel of Canada, which means there are potential customers in the



Brian Fang: favoured the UK because he spoke English

area and a labour force with relevant skills.

More help came in the form of Mr Martin himself. As part of the Welsh investment package, he was brought in as project consultant to ensure

Ringtel had an experienced English-speaking operations manager. He has since joined the company.

At first, sourcing will be from eastern Asia but Mr Martin says that, as Ringtel's

learning curve in Wales rises, the intention is to develop local sourcing.

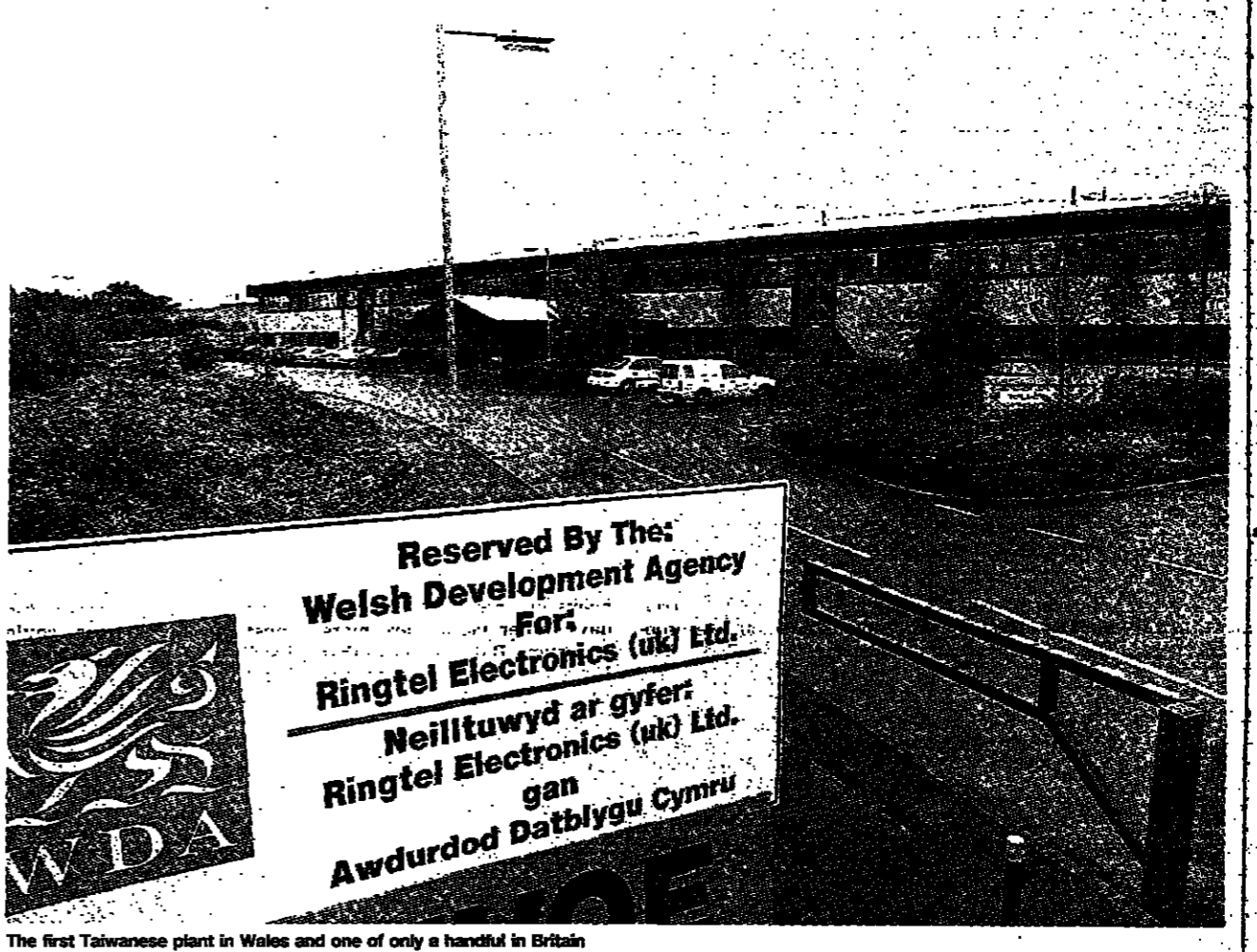
Mr Fang expects labour costs to be initially 20 per cent higher in Wales. In the Welsh factory, earnings will be similar to those in Taiwan, but for a shorter week - 37 hours, compared with 48 hours.

"The trick is to be smarter here and to produce more," says Mr Martin. "Being under one roof, there is the opportunity for labour mobility within the different processes, as long as people are adequately trained. The quality of labour is very, very important."

Mrs Elaine Jones, of the WDA, has acted as Ringtel's facilitator in Wales and the agency has helped, for example, in arranging work permits for Taiwanese engineers and in finding a school for Mr Fang's son - he and his wife have bought a house in Cardiff.

If that shows Mr Fang's commitment to Wales, another indication is his acceptance of an invitation to a different grandstand view - watching Newport rugby team play the Barbarians.

Roland Adburgham



The first Taiwanese plant in Wales and one of only a handful in Britain

■ Case study: Sanden

Peaceful Brittany wins Japanese company

Andrew Jack examines the reasons why some companies prefer to locate in France

For the next few months, Kotoku Monya, managing director of Sanden Manufacturing Europe, is working from temporary office space in the north-western French city of Rennes in Brittany.

But by the middle of next year he will have moved into brand new offices on a 100,000 square metre country site, called Le Quillou on the road to the coastal town of St Malo, and will be supervising the work of some 350 staff producing compressors and air-conditioning systems for cars.

Sanden - which is initially investing about FF250m (\$70m) in its new French plant - is only one of the most recent examples of a large number of Japanese companies to invest in France over the past few years.

While US investors probably represent the single largest group into France, Japanese businesses are also among those which are well represented within the country. Companies including Canon, Hitachi, Mitsubishi, Sony, Sumitomo and Toshiba are among the better-known, but they sit alongside many smaller, more specialist businesses.

Bernard Yvetot, deputy chief of the government-sponsored Invest in France mission, says there are a number of elements which characterise the location decisions of Japanese executives which set them apart from their peers in other countries. "They tend to take much more time over a decision," he says. While the average time for companies is several months, he suggests for the Japanese the scale is normally

between one year and 18 months.

"They are very sensitive to the quality of the responsiveness they receive from the local authorities, reflecting their long-term views," he adds. "They are also more interested in the knowledge and skills of local industry than many others."

He says that they generally understand France's limited ability to offer tax incentives compared to some other countries courting inward investment, and are pleasantly surprised by the costs of operations and the level of productivity they can achieve.

A number of these factors were certainly important for Mr Monya at Sanden. The Japanese group, which generates about half of its sales in overseas markets, produces a range of engineering products including compressors, air-conditioning systems and refrigeration equipment for supermarkets and vending machines.

Around the world, Sanden has operations in Japan, but also in Texas, Mexico, Singapore, Malaysia, India, Taiwan, Indonesia and is about to open another factory in the Philippines. Within Europe, its sister company, which produces vending machines, already has a plant in Italy.

But Sanden's strength in Europe has been the sale to a large number of European car manufacturers of air-conditioning equipment, a market in which it controls more than a 50 per cent share. "This is our fourth big plant, and with it Europe will become our fourth pole after Japan, Asia and America," he says.

The group already has a sales office in the UK, and had been considering European manufacturing over a number of years. Mr Monya says there was one principal reason. "It is part of our philosophy to operate close to our customers."

Local operations would allow the group to be in regular contact with purchasers and so in a position to respond quickly and flexibly to their demands. In addition, the rising value of the yen in the last few years has made exports directly from Japan extremely expensive.

Serious consideration of locations began in the middle of 1994. The UK was ruled out because most of Sanden's clients are based in continental Europe. Instead, it considered sites in France, Germany and Italy.

Mr Monya says the company weighed up about 30 different items in its calculation of where to place its factory. Among them was the political and economic stability of the countries, their infrastructure to ensure quick distribution, and the quality and cost of labour.

While labour costs were higher than in some other European countries, he says he considered this less important than the fact that potential employees were well trained and appeared to be highly productive.

He also emphasises the importance of local suppliers, because Sanden's intention is to buy as much as possible from companies in the same region, reflecting its policy of being close to customers and to suppliers. He says he liked the fact that Brittany was a relatively quiet, safe and peaceful region of the country.

But he also highlights one final factor which clinched the decision to move to Brittany against other countries with greater financial incentives, and even compared with other parts of France.

"It was the support offered by the local authorities and the people in the area," he says.

"Time will tell, but Sanden is optimistic that it has made the right choice. It held a groundbreaking ceremony on October

16, and plans to open its factory by the end of April next year and adjacent offices by June.

During its first phase of operations for the following three years, it expects to employ about 350 staff and aims to produce 700,000-800,000 components a year.

Beyond that, Mr Monya says the company has an option to double the size of its plant. "We want to expand in Europe," he says.

Not all Japanese investment in France is a question of companies opening operations directly in the country, such as Sanden. Some Japanese investors buy shares directly in French companies. Other businesses form joint ventures or alliances.

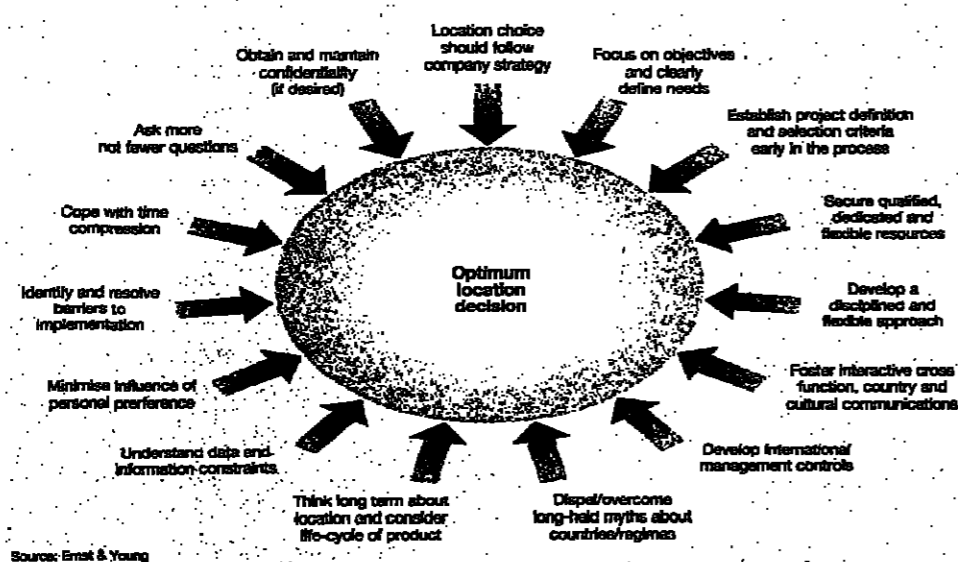
For example, Unifika, a textile company, last year opened a joint operation with DMC, the French textile group. Both

hold about one third of the equity, with the rest on the stock exchange. Inoseta has a factory in La Mure in the Rhône-Alpes region, making artificial silk for women's lingerie.

One director says the Japanese decided to find a partner in Europe because a large proportion of their market was to purchasers within the continent, and a local facility allowed them to shield themselves from the effects of changing in exchange rates and other factors which could have impeded their ability to expand.

He says Unifika chose France among the different EU countries largely because of concerns about distribution to its markets: the country was both well positioned for its networks, and had modern infrastructure so it could take full advantage of the location.

Key location success factors



Source: Ernst & Young

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مکان من الوطن

Financial incentives: by Elias van Herwaarden

The variety of aid schemes grows

Financial incentives, regarded as the icing on the cake for foreign investors, are being restructured

Throughout Europe, there is fierce competition for corporate investment. The traditional outward focus, seeking to attract foreign direct investment, is now equalled by a similar interest in keeping established companies which may be contemplating relocation.

As a result, countries and regions across the European Union have tailored their financial aid packages to foster growth and to create new jobs, and to safeguard existing employment. Europe, therefore, offers a variety of aid schemes, despite European Commission regulations governing the types of aid from which companies may benefit. Overall, the Commission imposes ceilings on the net grant equivalent (NGE) that the authorities can give to companies in their territory. These ceilings are reviewed on a regular basis.

Nord-Pas de Calais is a typical example. In 1993, this French region at the continental end of the cross-Channel tunnel, received the approval of the Commission to offer French and foreign investors a new tax incentive, the privileged investment zone, commonly referred to by its French abbreviation Zip. Companies

located on a Zip-site receive a tax credit which reduces corporate tax by a percentage of the total investment. In fixed assets, excluding costs of land. As this credit can be carried forward against Commission-imposed correction rates, it can amount to a tax break of 32 per cent of the investment in buildings and equipment for a company which invests in 1995 but postpones the use of credit until 2000.

As an alternative to tax incentives, corporate decision makers can be offered a variety of cash grants aimed at reducing initial fixed asset investment and other start-up costs in the first years of operation. In Hainaut (southern Belgium), for example, companies have found that they can obtain a 33 per cent financial injection to help pay for the site, buildings and equipment. Though this is certainly not the highest amount in the EU, it is likely to top the list of official aid in non-peripheral regions.

Job creation is a common aim of all these schemes and often determines the amount of the eventual grant. For example, in France the Zip cash grant is, in principle, between FF50,000 or FF70,000 (depending on the region) per newly-created job. Notwithstanding these ratios, the total amount granted to investors may not exceed ceilings fixed by the Commission.

In practice, regional and national authorities demonstrate a great deal of flexibility

in setting the amount they are willing to give to a company. This is particularly true for investment projects which have a high degree of prestige. In Flanders, for example, the exceptional allocation of extra resources has even been formalised.

In the northern Belgian region, which can grant up to 18-21 per cent of investment

costs, investors can qualify for three types of cash aid. Up to 8 per cent can be awarded for "strategic reasons" reflecting the importance of the project to the region.

In addition to higher cash grants, regional aid organisations are developing other more sophisticated schemes to assist companies. Some countries have gradually replaced

the traditional "cash on the table" offer with schemes such as tax-friendly sale and lease-back, waiving of social benefit costs, and reduction of personnel training costs. In recent cases, such packages have enabled Swiss regions to compete successfully even with the very cost-attractive Republic of Ireland.

A third trend in incentives in

the EU is an increase in the practice of making grants available on a discretionary basis. This can mean that in some regions investors will find little to offer even though their project meets specified criteria.

Thus, Luxembourg saves its cash grants for the most beneficial projects. In contrast, sites at token prices are available to a larger group of investors. Likewise, the size of the UK's regional selective assistance (RSA) grant is decided in discussions between government and company, with no commitment on the maximum amount which may eventually be paid.

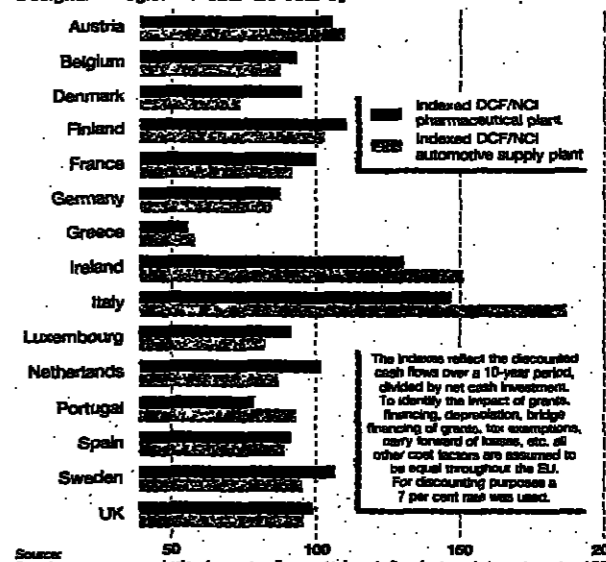
The practice in the UK may well be the inspiration for a new philosophy in which immediate job creation is no longer the driving force behind the decision to offer incentives. Instead, authorities may evaluate potential investment projects on less tangible criteria such as the amount of technology involved, the part likely to be played by local suppliers, the effect on the existing industrial grid and the transfer of company know-how to suppliers and individuals in the region.

Though new to Europe, this philosophy is well-known in south-east Asia, particularly Singapore, where the economic development body has a long history of requiring investors to introduce new technology in order to sustain the region's long-term growth.

Even though incentives undoubtedly affect the final choice of location, they are

Effect of the highest incentives

Designated regions in each EU country



Source: Price Waterhouse

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Hungary: by Virginia Marsh

Stepping stone to the east

The one-time magnet for foreign investments is facing increasing competition

Hungary, the pioneer of market-led reforms in the former communist bloc, has attracted the lion's share of the foreign investment which has flowed into the region since 1989. Between 1990 and 1994, the country attracted US\$8.45bn in foreign investment, more than was invested in all other eastern European countries combined.

Now, however, Hungary is facing increased competition for investment from other countries in the region, especially Poland and the Czech Republic. In addition, many multinational companies are shifting their attention from eastern Europe to far larger markets in China, India and other rapidly expanding Asian countries.

A small land-locked country of just 10m, investment officials say one of Hungary's greatest advantages is its pivotal position in the centre of Europe, between the European Union and the huge former Soviet market. Some 240m people live within a 1,000km radius of Budapest.

"It's quite obvious no one comes here for this market of 10m. The thinking of many western companies is to use Hungary as a business route to eastern Europe, to Ukraine, Russia and Romania. Everyone knows the big markets are there," says Ms Mariann Farkas, deputy managing director of the Hungarian Investment and Trade Development Agency (HITDA).

The government has therefore given high priority to projects to improve the country's infrastructure. Construction of the M1 motorway linking Budapest and Vienna has recently been completed while the government this month approved the cost of extending the M3 motorway from Budapest to the industrial north-east, towards the Ukrainian and Romanian borders. There are also plans for a new motorway in the southern and south-western regions of the country to improve transit routes to Serbia and Slovenia.

Modernisation of the telecommunications system - one of the biggest problems for businesses in eastern Europe in the early part of the transition - is also well under way. In December 1993, a consortium of Deutsche Telekom and Ameritech took management control and a strategic stake in Metav, the national telecommunications company. The company has embarked on a F210bn (US\$1.62bn) investment plan, increasing the number of telephone lines by 19 per cent last year and by an expected 23 per cent this year, well above the minimum 15.5 per cent stipulated in the consortium's purchase agreement.

While the infrastructure and operating conditions have moved closer to western standards in the past six years, the country still offers foreign manufacturers significantly

lower operating costs in some sectors than those found elsewhere in Europe. One of the main attractions is a highly-skilled low-cost labour force - average monthly wages of around US\$300 are a fraction of those in neighbouring Austria or Germany, two of the most active investors in Hungary. Real estate prices which have increased sharply in the first years of the transition have stabilised while rent for office space in Budapest has fallen in the past year thanks to a building boom. According to DTZ Debenham-Zeddelhoff, the property company, first class office space in the capital now costs DM35-40 a square metre per month and second class office space costs DM20-30, compared to rents of DM50 in the early 1990s when there were severe shortages of modern office buildings.

"We've got a much bigger and better office here in Budapest than in Vienna for around the same price," says Garry Williams, local finance manager at Ford which is in the process of moving its central European headquarters from Austria to Hungary. He adds



Philips has a factory in Szekesfehervar

that moving to Budapest will give Ford executives a better understanding for market conditions in eastern Europe. "By living here, you see the issues which confront Hungarian businesses from day to day and which, to an extent, are replicated all over the region. In Vienna, the focus is very different."

The country's association agreement with the European Union means western European companies can cut costs by moving production of components or finished goods to Hungary and still sell on EU markets without incurring heavy import taxes. And, the executive car division of Volkswagen, for example, ships components overnight to its recently established engine plant at Győr in western Hungary. These are assembled at the plant, the company's first production venture outside Germany, and sent back via a train link which comes directly on to the factory floor. The association agreement - which abolished or provided for the phasing out of tariffs on goods produced in Hungary - has also given manufacturers from the US and Asia such as Suzuki, General Electric and Ford, a low-cost base from which to export to the EU.

Until recently, Hungary also offered investors tax holidays

or reductions but these were abolished, partly due to pressure for equal treatment from local companies. As part of austerity measures the government also scaled back HITDA's budget and financing for investment and trade promotion. This was widely viewed as a mistake and the government is considering restoring the funding and reinstating some tax incentives.

"Some tax holidays should come back," says Ms Farkas. "People don't make investment decisions just because of tax holidays, other factors are more important. But they prove that Hungary wants foreign investment and other countries like the Czech Republic have them."

Much of the early investment which flowed into Hungary came through privatisation of state companies. Now, however, many of the country's most attractive companies have already been sold off and once sales of utilities, under way at present, is completed there will be relatively few companies of interest left to privatise. The country's private sector, driven by the thousands of new private Hungarian companies which have sprung up in the last decade, has expanded rapidly, accounting for around 60 per cent of GDP, but most start-up companies are still too small to be of interest to a multinational.

This means western companies are increasingly opting for greenfield investments and several towns are developing industrial parks in the hope of attracting foreign investors. Szekesfehervar, an attractive Baroque town 60km south-west of Budapest which was heavily industrialised in the communist era, has taken the lead. The town, which has attracted more than US\$1bn in investment already has three industrial parks while a fourth is under consideration, says Istvan Nagy, the mayor.

Philips/Grundig, Stollwerk, Nokia and Shell are among the companies which have set-up production operations at the first park, a joint venture between the state and an American investor, developed on a former Soviet military base. As well as land, the venture provides a full range of services to help companies get started - from securing infrastructure grants from the state to hiring staff and legal advice.

Investors say the commitment of officials to securing foreign investment, the rapidly improving infrastructure and an increasingly sophisticated business class makes Hungary a top choice in eastern Europe. Where the country rates less well than its neighbours is in macroeconomic performance. Hungary is heavily indebted - its foreign debt of more than US\$30bn is by far the highest per capita in the region - while growing budget and current account deficits prompted a package of emergency austerity measures in March. While essential for long-term prosperity, the package has had a negative impact on domestic consumption, depressing retail sales, and on economic growth. GDP is expected to increase by 1 per cent this year.

Eastern Europe: by Anthony Robinson

Fresh glitter transforms the gloom

City centres are being revitalised and modern housing estates are rising everywhere

Over most of former communist Europe the official statistics show the construction industry to be in severe recession. Yet once through the newly-built or heavily-modernised airport arrival hall in most of the so-called "transitional economies" even the most casual visitor could hardly fail to notice frantic building activity.

The capitals and smaller cities of central Europe - the Czech Republic, Hungary, Poland, Slovakia and Slovenia - but also the supposedly war-torn Croatian city of Zagreb and the Baltic capitals - are all busy repairing the ravages of time, neglect and central planning.

Further east, it is a similar story in St Petersburg and in Moscow where developments such as the Riverside Towers on the banks of the Moskva river promise the highest western-style standards of accommodation.

It soon becomes clear that all that the gloomy official statistics record is the collapse of the huge state-owned enterprises which spent decades surrounding once elegant historical town centres with dreary high-rise suburbs.

The collapse of communism, the restitution of land and property to former owners, the dusting down and re-institution of property laws and land registers has been messy and is still an incomplete process. But the basis for a more rational, market-orientated use of land and buildings is being created and with it the revitalisation of city centres, the sprouting of new residential areas with low-rise housing and gardens, and the construction of new factories, warehouses, and modern offices.

The countries most advanced along the path of economic reform are also embarking on ambitious telecommunications modernisation and other infrastructural developments demanded by foreign investors and domestic entrepreneurs and professionals.

These developments have already transformed the high streets of east and central Europe where

4 BUSINESS LOCATIONS IN EUROPE: Country profiles

■ United Kingdom: by James Buxton

London is voted the best city again

"I've never in my business life known a stronger selling pitch than the one I make now for the UK," says Andrew Fraser, the former advertising executive who runs the Invest in Britain Bureau (IBB), the government agency which leads the UK's effort to secure inward investment.

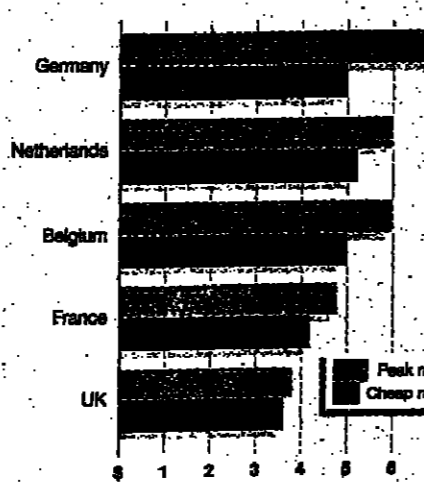
Judging by results alone it is easy to understand Mr Fraser's bullishness. In the past year, the UK has secured a spectacular series of large manufacturing inward investment projects, and is attracting at least a third of all inward investment coming into the European Union.

Meanwhile, London has for the fifth year been voted Europe's best city in which to locate a business, in an opinion survey of senior executives from 500 European companies. The survey put London ahead of Paris, Frankfurt and Brussels.

The UK capital came top partly because of its good communications and low costs, two of the factors which companies consider important in making location decisions.

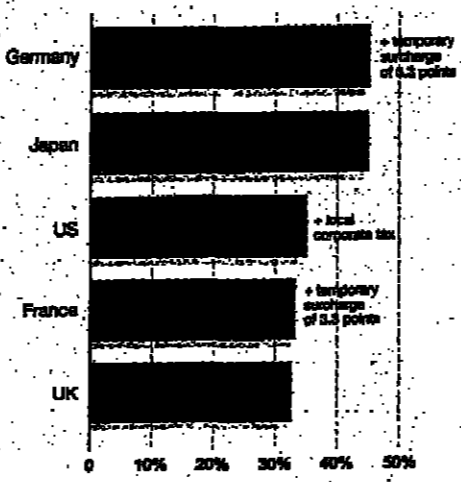
In the past 12 months, a stream of announcements about big inward investment projects has pushed such mundane industrial stories to the

Cost of a five-minute call to the US



Source: BT, France Telecom, Belgacom

Maximum tax rate on corporate profits



Source: Ministry of Economics and Finance

top of the national news and, presumably, into people's consciousness.

NEC, the Japanese electronics group, is to spend £500m on a new microprocessor plant at Livingston in Scotland. Motorola is investing a further £250m in making microprocessors at East Kilbride near Glasgow.

Jaguar, the luxury car maker which belongs to Ford, is to build its new saloon at Castle Bromwich, Birmingham, and

not in the US.

The South Korean company Samsung recently opened the first stage of a £450m consumer goods manufacturing facility at Wyndyrd, Cleveland, which it announced last year. In August, Siemens of Germany decided to set up a £1.1bn microchip plant on Tyneside. Soon afterwards, Fujitsu of Japan announced a £816m expansion of its semiconductor plant in County Durham. Nissan is spending £250m expand-

ing its Sunderland car plant.

Inward investment projects announced in 1994 would create 37,000 new jobs and safeguard a further 51,000. According to the IBB, the UK's stock of inward investment has risen from £52bn in 1986 to £131bn in 1994.

The UK has 40 per cent of the stock of US and Japanese investment in the enlarged EU. Foreign-owned companies provide 18 per cent of the UK's manufacturing jobs, 24 per

cent of its net output, 32 per cent of its manufacturing investment and about two-fifths of the its manufactured exports.

The US continued in 1994 to be the largest source of new investment, followed by Germany and then Japan.

The IBB attributes the UK's success to four main advantages: the English language, particularly important to US and Japanese companies; the labour force, not just its relatively low cost but its flexibility; the strong UK service sector, especially the extent of services available in the city of London; and the UK's welcoming attitude to foreign companies, particularly its deregulated business environment.

In the past two years there have been changes in the way the UK attracts inward investment.

While Scotland, Wales and Northern Ireland with their well-focused inward investment agencies, each backed by a government department, continue to win projects, other parts of Britain are becoming better organised.

Recently, the Northern Development Company, covering north-east England and Cumbria, has galvanised local authorities and enterprise bod-

ies into more effective co-operation to win projects. The urban regeneration agency English Partnerships, set up in 1993, is now playing a central role in co-ordinating efforts to meet potential investors' needs for sites, grants, labour and advice.

The recent wave of new investments announced for the north-east at the expense of, for example, Wales, may reflect the redrawing of the map of development areas and assisted areas in favour of derelict English industrial areas.

The IBB has been quietly asserting its lead in representing the UK overseas and pulling together the efforts of the inward investment agencies around the country. It would prefer that the regional agencies, instead of trying to steal a march on each other, concentrate on finding a home for potential investors and looking after existing ones who may reinvest.

It sees this as a necessary response to international competition in which the UK is increasingly pitted not just against other EU countries but against locations in south-east Asia and in Mexico.

Despite the UK's success, a note of caution is necessary. Although the high level of

The best European cities in which to locate a business today

City	1993	Rank 1994	1995	Weighted average
London	1	1	1	1.00
Paris	2	2	2	0.70
Frankfurt	3	3	3	0.49
Brussels	4	4	4	0.28
Amsterdam	5	5	5	0.28
Barcelona	10	7	6	0.10
Zurich	6	6	7	0.17
Munich	12	9	8	0.16
Madrid	16	10	9	0.14
Düsseldorf	7	8	10	0.13
Geneva	10	11	11	0.12
Munich	15	11	12	0.12
Manchester	9	11	13	0.12
Dublin	14	14	15	0.10
Berlin	12	14	16	0.08
Stockholm	15	17	17	0.09
Lisbon	7	17	18	0.08
Glasgow	16	17	19	0.07
Hamburg	23	23	20	0.07
Vienna	20	18	21	0.06
Prague	21	17	22	0.05
Lyons	26	27	23	0.05
Rome	19	22	24	0.05
Budapest	22	24	25	0.05
Copenhagen	23	17	26	0.05
Warsaw	25	27	27	0.05
Turin	26	26	28	0.05
Oslo	26	25	29	0.05
Athens	26	25	29	0.05
Moscow	26	29	30	0.05

Based on a telephone survey in June 1995 by The Harris Research Centre of 500 companies in the European countries. The sample was systematically selected from Europe's 15,000 largest companies. Those interviewed were senior managers or company directors with responsibility for location. Source: The European Cities Monitor 1995, Hestley & Hestley.

reinvestment suggests that foreign companies are firmly rooted, they often generate less spin-off for local businesses, either in manufacturing or professional services, than do indigenous companies. And it needs to be remembered that not all the vast sums of money transferred as the value of new projects is spent in the United Kingdom: a large part of it goes on importing capital equipment from south-east Asia, Germany and the US.

The Netherlands

Call centres create jobs

The Netherlands's attempts to sell itself to foreign investors as an attractive production and manufacturing site received a big boost in the summer when Eastman Chemical of the US announced that it had decided to build two plastics factories in the port of Rotterdam.

The planned investment, costing a combined £150m (£300m), is expected to bolster Dutch efforts to convince foreign companies that the country is perfectly suited to be a manufacturing location – and not just a site for non-manufacturing operations, such as distribution, warehousing and European head offices.

Indeed, the Netherlands is regularly at pains to emphasise that, despite its reputation as a logistical centre in Europe, it does not cater simply to service industries.

So far, the country's biggest foreign investment in manufacturing is the multibillion-guilder complex built by Fuji Photo Film of Japan in Tilburg, in the southern Netherlands, since the early 1980s. The site, containing three factories, is believed to be the largest foreign investment by any Japanese company outside the automotive sector.

Eastman's initial investment plans call for the construction of a polyethylene terephthalate (PET) resin plant, as well as a facility for producing a key PET raw material, purified terephthalic acid (PTA).

The US company has said other plants may also be built at the Rotterdam site.

William Garwood, head of Eastman's European operations, said Rotterdam would serve as the company's "base case" when making comparisons within Europe for sites for future expansion. "Rotterdam will be pretty competitive," he said.

The plans are the second Eastman-related coup pulled off by the Netherlands so far in the 1990s. Earlier, the US chemicals company chose The Hague as its headquarters and service centre for Europe, Middle East and Africa.

The two Eastman projects – manufacturing in Rotterdam and administration in The Hague – underline the two types of foreign investment the Netherlands has aimed to win over the past few decades. More recently, it has begun to promote a third type of operation – "call centres", or pan-European customer information offices run from the Netherlands. The Dutch campaign makes much of the country's relatively cheap telecommunication costs and the availability of staff who can speak several languages.

The growing importance of call centres, typically used by computer companies to answer customers' queries, is slowly filtering through into government statistics. In 1994, the value of incoming foreign investment fell to £1.68bn from £1.13bn the

year before. But the number of jobs created by new foreign investors rose to more than 3,500 from around 2,400 in 1993.

The government, which cautions against interpreting trends on one year's figures, attributes the shift partly to the new phenomenon, since the call centres are labour-intensive rather than capital-intensive. "Call centres employing hundreds of people are no longer an exception," Ms Anneke van Dok, foreign trade minister, said when unveiling the 1994 figures earlier this year.

Labour and labour-related issues are often regarded as the weak spots in the Netherlands' otherwise attractive climate for foreign investment. Transport links are excellent, thanks to Amsterdam's Schiphol Airport and the port of Rotterdam.

Another selling point is the flexibility of the tax authorities, according to accountants who advise foreign investors. The Rotterdam office of the Dutch tax service is prepared to give detailed, advance tax rulings on a foreign company's investment plans. This takes away uncertainty about future tax treatment, providing the Netherlands with an advantage over neighbouring countries. But labour is relatively expensive, reflecting the cost of social premiums and taxes used to fund the Netherlands' extensive welfare state. Compared with countries such as the US, which regularly accounts for more than half of total incoming investment in "greenfield" sites, labour laws are inflexible and skewed in favour of employees.

At a seminar on the Dutch budget for business people, many of them from abroad, Fred Lempers, director of the Netherlands Christian Employers' Federation (NCW), said, "Labour costs are high, but labour productivity is high, too."

He said some improvements in labour conditions were being made, citing the sharp decline in absenteeism which followed changes in the way sickness benefits are paid. The government had also made fundamental reforms in the disability insurance scheme, he noted.

The Netherlands Foreign Investment Agency, charged with attracting foreign investment to the country, concedes that labour-intensive projects with a low-level of initial investment will tend to go to other countries, usually in eastern Europe or even southern Europe. But it argues that the Netherlands is able to hold its ground when it comes to large-scale capital investments in high-skill sectors, such as chemicals and bio-technology, where education levels are crucially important.

Ronald van de Krol

OPPORTUNITIES COME AT YOU EVERY DAY.
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Italy by David Lane

Outsiders get a cool reception

Recent months have been a hard test of patience for businessmen travelling by air within and to and from Italy. Delayed and cancelled flights have wreaked havoc on schedules, as, first, pilots of the Alitalia national airline and then air traffic controllers struck over pay demands. And while anarchy held sway at the airports, businessmen trying to contact offices and homes were dealing with a more efficient telephone system.

Italy does not have a good reputation for services and infrastructure. Neither during the 1990s, as the country's leaders lurched from one crisis to another, have politics received kind treatment from the media. Five different prime ministers have tenanted the Palazzo Chigi during the past 3½ years, and there are signs that a sixth will soon be in office. The corruption scandals that emerged in early 1992 continue to reverberate and political uncertainty badly affects the lira. Business people looking at Italy as a potential location for new ventures or with a view to expanding existing operations see instability and a situation that often appears incomprehensible.

Moreover, foreign companies

could be forgiven for believing that their presence is not really wanted. Italian officials and business people admit that there is a reluctance to accept outsiders. The notion that inward investment equals economic imperialism, often attributed to Italy's strong and vocal political left wing, has been hard to eradicate.

Aversion to foreigners is not confined to trade union leaders and left-wing politicians, however. Italy's own business people have been culpable. Many consider that automobile-maker Fiat did the country a disservice by preventing Ford from acquiring Alfa Romeo in 1986. The failure of the joint venture between Alfa Romeo and Nissan, established at the end of the 1970s, was also a setback for those who believe that greater internationalisation means welcoming more foreigners to Italy.

With a population of 57m, its position in the centre of the Mediterranean and membership of the European Union, Italy cannot be and has not been forgotten as a business location by foreigners. Indeed, a study published by the industrialists' confederation Confindustria in June, shows that there were 1,474 Italian manufacturing companies in which

foreigners had equity interests, either controlling or minority stakes, at the beginning of 1994. They provided jobs for nearly 500,000 people.

Confindustria's study shows that almost 225,000 jobs were in sectors with high economies of scale: food processing, household electrical appliances, primary chemicals, tyres and rubber products, and soaps, detergents and cosmetics. Although total numbers are low compared with other European countries, the spread of foreign interests in Italy is wide. Manufacturing companies in sectors of high technological intensity that have foreign ownership or equity stakes gave employment to nearly 126,000 in 1994. Pharmaceuticals headed the list with

41,300, followed by electronics and telecommunications with 39,200.

The US is the leading investor country. The 338 manufacturing companies with US parents or minority shareholders employed 151,700 at the beginning of 1994. The US chamber of commerce in Milan says that electronics, chemicals and pharmaceuticals are the main sectors. Manufacturing companies account, however, for less than half the total number of US concerns, whose overall investment the chamber of commerce estimates at about \$15bn. There are around 250 US companies in services and finance and a similar number of sales operations.

New companies continue to arrive. Through its British subsidiary, Canada's Elcon Technology, a data communications hardware and software company, will establish an Italian operation at the beginning of next year. But, like many foreign companies in Italy, it will be a sales offshoot and modest in size. This is the problem that some Italian economists and businessmen are now beginning to recognise: Italy is failing to attract large new enterprises.

Much of foreign investment over recent years has been through acquisition of Italian companies. Confindustria's figures show that greenfield investments accounted for only 206,400 jobs in Italian manufacturing companies with foreign shareholders, just 14,800 being created between 1981 and 1993. The limited level of Japanese investment, only 700 new jobs between 1992 and 1994, confirms Italy's marginal position compared to other European countries.

Apart from the aversion factor, foreign investment is obstructed by the fragmented and uncertain official framework for attracting business to Italy. Two ministries are involved in providing incentives, the industry ministry for small and medium-sized enterprises and the budget ministry



Milan: foreigners have a share in 1,474 Italian manufacturing companies

for large companies. Italy's regional authorities also give incentives. Officials say that incentives legislation and administration, following the termination of special funding for the southern mezzogiorno regions, has not yet been fully settled.

Uncertainty over incentives is not new and is probably not as large a problem as Italy's failure to project an attractive image to potential investors.

Fragmentation of effort, inadequate resources and lack of coherent policy contribute to Italy's poor achievement in inward investment. Commercial work ranks low in Italian embassies around the world and the trade centres run by Istituto Nazionale per il Commercio Estero (INCE), whose own future is uncertain, are not geared up to encourage foreign investment in Italy.

In addition to the budget and

industry ministries, a third, the foreign trade ministry, whose value is increasingly questioned, is involved in the task of tempting foreigners to locate in Italy. And the Istituto della Promozione Industriale (Industrial promotion institute), which is overseen by the industry ministry, also plays a part.

If everybody were to sing the same tune, Italy might do better in attracting investors.

Country	Company	Employees
US	338	151,731
France	254	94,784
Germany	209	58,644
Sweden	91	48,982
Switzerland	148	39,170
UK	163	37,584
Japan	53	19,284
Others	218	55,007
Total	1,474	487,126

Source: Confindustria

Austria

Gateway to the new democracies

Last August, Villach lost a close race against Newcastle as the location for Siemens's new microchip plant. But the feeling of disappointment remained muted. The fact that the southern Austrian town, where Siemens already operates a chip factory, came so close to winning the coveted prize speaks well for the qualities of the country as an investment location.

They include a highly skilled labour force, good infrastructure, and decades of macroeconomic stability. The disadvantages are high labour costs, strong trade unions and a plethora of labour regulations putting Austria in the category of high-cost countries.

The average industrial wage is Sch113 (\$11), but a series of fringe benefits required by law doubles the actual labour costs for

apprentice system that trains some of the best skilled workers anywhere in the world.

The geographical location is a mixed blessing. For decades, Austria was on the eastern edge of the capitalist world and remains quite far from the main business centres in western Europe. Still, the opening of the east has made Vienna an attractive gateway to the new democracies and has attracted new businesses. Road and train links are good, but rapid train lines are still years away.

Vienna's airport is growing quickly and the national airline, AUA, has established one of the best flight networks to the east. Telecommunication costs are high, but are slowly coming down. The postal service has a monopoly on all services,



Vienna: there are strict laws governing shop trading hours in Austria

employers. Most workers are organised in trade unions, and the Betriebsrat (employee council) has extensive rights in every large company. Weekends are generally work-free, and the unions have so far resisted the move toward flexible work hours that are common in other countries.

The most obvious example of the rigidity of conditions in Austria is the very strict shop-closing laws, which force all stores to close at 6.30 pm on weekdays and at 1 pm on most Saturdays. Sunday shopping is unheard of.

Driven by a high level of ecological consciousness, Austria has also tightened its environmental regulations in recent years. This has hurt the paper industry and other low-tech sectors, but may have accelerated structural changes in the economy. The strong trade unions and the culture of dialogue in Austrian business make relations between employers and workers the best in Europe.

Strikes are virtually unknown, and wage negotiations have been a civil affair even in tough times. On average, labour costs are 10 to 20 per cent lower in Austria than in neighbouring Germany, but the quality of the work force is equal. Like Germany, Austria has an

and the privatisation is held back by political resistance. A growing problem for some investors is Austria's tight immigration laws, which make it difficult to receive work permits even for highly skilled employees who do not come from an EU country.

Austria's entry into the European Union this year has helped to attract new foreign investments, even though the right to pay subsidies is now restricted by European regulations. The only region eligible for "Target One" subsidies by the EU is the eastern-most province of Burgenland. Some Swiss companies have relocated plants to western Austria.

Austrian government officials are particularly proud of the macroeconomic conditions. Inflation is 2.2 per cent, unemployment is 4 per cent, and the Austrian schilling has remained pegged to the German mark for decades. As other European currencies depreciated against the mark, however, Austria's export industry has been struggling to remain competitive.

Austria is also lagging other industrial countries in research and development outlays, which currently stand at 1.6 per cent of GDP.

Eric Frey

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6 BUSINESS LOCATIONS IN EUROPE: Country profiles

■ Portugal: by Peter Wise

Change of brand image wanted

Portuguese workers earn, on average, six times less than their German counterparts

Average wages that are less than a quarter of the European Union average and more than \$1 an hour below those in the developing economies of Asia might sound like a good selling point for Portugal's efforts to attract foreign investment. But officials rarely breathe a word about them.

A far better advertisement for Portugal was the decision by Grundig, the German consumer electronics manufacturer, to establish its worldwide research and development unit for audio equipment in the northern town of Braga.

The Portuguese Institute for Investment, Trade, Tourism (ICEP), which promotes Portugal as a business location, is eloquent on how Junkers, part of Germany's Bosch group, has set up an international research and development cen-

tre for gas water heaters in the Atlantic port of Aveiro.

But it does not press home that Portuguese workers earn, on average, six times less than their German counterparts. The reticence reflects an endeavour to market a new profile for Portugal - the national equivalent of a change of brand image, from a low-cost, low-quality staple to a sophisticated, premium product.

Portugal wants to leave behind the image of being a European base for low-wage, high-volume, unskilled manufacture of cheap textiles, clothing and shoes.

In its place, officials hope to create a new perception of the country as a developed economy offering the technological capacity and workforce qualifications for high value-added production.

The economy remains dependent on traditional sectors such as shoes and clothing. The textile industry, for example, employs 20 per cent of the industrial workforce and accounted for 18.2 per cent of total export earnings in 1994.

But Portugal sees no future

in competing on a basis of low wages, low prices and high volume with companies in Asia and North Africa that have even lower costs and are gaining greater access to European markets as a result of the reformulation of the General Agreement on Tariffs and Trade.

Portugal may be lagging behind competing regions in incentives

"Being invaded by European shoe manufacturers who move to Asia after a couple of years is clearly not the way forward for Portugal," says Carlos Loureiro, a Lisbon-based partner with consultants Arthur Andersen.

"It is not in the interest of long-term development to place an emphasis on cheap labour," Mr Loureiro added.

As a result, it is Portugal's

science and technology parks, research centres and biotechnology institutes that are being promoted.

High levels of technological proficiency are unquestionably achieved in Portugal. "Technicians and engineers here are every bit as qualified and competent as their German counterparts and they have a great capacity for creativity and innovation," says Hermann Birg, president of the Portuguese-German Chamber of Commerce.

But technological prowess is a relatively scarce and, consequently, expensive resource. "Portugal produces excellent researchers but they are in short supply and command high salaries," says Mr Loureiro.

"We are in a position of having to import scientists from Russia and other former communist countries," he added. This is a revealing indication of one of the most vulnerable aspects of Portugal's efforts to shift from low-cost manufacturing to production with a high technological input.

Attempting to upgrade

industry in this way means that Portugal is no longer competing for investment with the developing world but with central and eastern Europe.

The change in comparisons is a clear disadvantage for Portugal as a business location.

Countries such as Poland, Hungary and the Czech Republic are much nearer to the main European markets; workforces are better educated and more technically qualified, but wages and other costs are lower.

Portuguese companies are also growing resigned to the likelihood that EU funds, which have played such an important part in the country's recent development, will be largely diverted to central and eastern Europe when the seven-year Delors II package runs out in 1999.

Delays in implementing the present package, first by the EU and then in Portugal, already mean that "two out of seven critical years for stimulating investment have been lost", says Mr Loureiro.

Portugal is today felt to be lagging behind competing regions in

Country or area	Hourly cost of employing labour			
	1995		1994	
	Average hourly compensation (including non-wage costs) in \$	Local	Average hourly compensation (including non-wage costs) in \$	Local
Austria	7.58	156.75	21.73	247.88
Belgium	8.97	532.39	22.97	787.67
Denmark	8.13	86.18	20.44	129.93
Finland	8.16	50.56	18.89	88.87
France	7.52	67.49	17.04	84.46
Germany	9.80	28.83	27.31	44.29
Greece	3.66	508.00	6.94	1,591.00
Ireland	5.92	5.55	12.16	8.30
Italy	7.63	14,583.00	16.16	26,041.00
Luxembourg	7.72	458.00	18.49	640.08
Netherlands	8.75	29.04	20.91	38.00
Portugal	1.53	263.37	4.57	758.97
Spain	4.86	782.00	11.45	1,533.00
Sweden	9.86	93.12	18.61	145.11
UK	6.27	4.84	13.82	8.86
Trade-weighted measures	8.06		19.73	
Western Europe	7.88		19.47	
European Union	13.01		17.10	
US	1.85		5.77	
Asian NIES				

1 Former West Germany; 2 1995 data only

Source: US Department of Labor

Spain and Ireland in the incentives it offers investors.

However, large projects above €55m (\$33m), which qualify for contractual negotiations with the government, continue to offer highly attractive incentives. Portugal can also offer political stability and social peace.

As transport and telecommunication infrastructures develop, some of Portugal's

main problems as a business location are focused inside companies rather than in the economy at large.

A weak education system means that middle managers and qualified technicians are hard to find. However, Portuguese workers respond remarkably well when efficient management and know-how is imported.

"One you have experienced

the motivation of Portuguese employees it is difficult to readjust to the lower levels of drive and energy that are common elsewhere," says Mr Birg, who is also managing director of Bosch's operations in Portugal.

"When this is allied to the organisational and management skills of multinational companies the result is excellence," Mr Birg added.

■ Spain: by Tom Burns

Top two cities move up the approval ratings

Madrid and Barcelona are ranked surprisingly highly by top executives

On paper, Madrid and Barcelona win a surprising vote of confidence. In the annual top European business city chart - produced by Healey and Baker, the UK real estate group, based on the views of 500 senior executives - Barcelona has this year moved to sixth place from seventh in 1994 and 10th in 1993.

Madrid, which was 18th in 1994 and 10th last year, is this year ninth. The rankings place Barcelona ahead of Zurich and Milan, and Madrid in front of

standard and that big business culture in Spain, which has few large domestic corporations, is poorly developed.

A decade ago many hoped for an improved profile. There was talk, in the 1980s, of Spain as a centre for a southern Mediterranean basin from Milan to Malaga. "This axis idea kept coming up at meetings in Brussels," says Jose Joaqui Puig de la Bellacasa, of Richard Ellis' Spanish subsidiary. "Nowadays it's a very old story and nobody mentions it."

While the going was good, it was generally agreed that Barcelona had the edge over Madrid and possibly over Milan. There was also a school of thought that championed Madrid as an equidistant office

corporations as Spain's capital and therefore the home of the central administration.

Between them, the two cities have virtually carved up Spain's big businesses location market with Madrid taking the large share. "By comparison with European standards, there is a far greater concentration on Madrid and Barcelona than there ought to be," says Roger Cooke, chief executive of Healey and Baker in Spain. "This will begin to change but not soon nor by very much."

Valencia, Spain's third largest city, is for example, a victim of such power sharing because of its relative proximity to Barcelona and Zaragoza, a favoured centre for testing and launching products for the domestic market, is another. Companies prefer to be on the outskirts of Madrid and Barcelona than in Zaragoza, half way between the two big cities.

Elsewhere in Spain the attractions are limited. Seville, Spain's fourth largest city and the capital of the southern Andalusia region, has failed to take off as a business centre and Bilbao, once the hub of the industrial north, continues to decline.

Excitement over Seville was fuelled by the massive investment, including a high speed train link with Madrid that accompanied the city's Expo '92. Recession and the fading dream of a southern European axis has, however, dashed any hopes Seville might have entertained of reaping immediate benefits from such global exposure. If Seville has slipped back into its traditional inertia, Bilbao, a solid commercial city that once rivalled Barcelona as a business capital, has another drain on its vitality. For years the big Basque town has been studiously avoided as corporate location centre because of the violent nature of local politics.

"The fear of political terrorism in Bilbao may be more imagined than real but it exists nonetheless and no multinational is going to go there," said a Madrid businessman.

Madrid and Barcelona are making the most of their dominant positions. In both cities rents are low and are kept low by a considerable mismatch between supply and demand.

Madrid has a second ring road in operation, the M-40, which passes close by the city's international airport, by its new trade fair site and by its northern suburbs. Developers believe that this area offers the greatest potential for business locations.

In the inner city, businesses are inexorably relocating northwards along the Castellana boulevard that slices north-south through the city. At the top of the boulevard, close by the access to the M-40, two towering office, the *Puerta de Europa*, have become the new prestige business address.

The towers are the last of several projects that marked the building boom of the early 1980s and together they have added 60,000 square metres of high specification office space to the city.

In Barcelona, the most popular corporate location area outside the city is in the San Cugat district where a successful business and tech park is located. New highways and tunnels have vastly improved the district's access from the city centre. Within Barcelona itself business locations are increasingly likely to move towards the waterfront.

■ Belgium

Close to the decision makers

Europe's capital, Brussels, is a popular destination for relocating companies. Home to the institutions that are responsible for shaping future European Union-wide policies, many companies feel it is in their interests to be as close to the decision makers as possible.

According to a survey carried out by Healey & Baker last year, the perception of Brussels among companies as a future political capital has strengthened recently. Sixty-four per cent of respondents in a survey thought Brussels would be the most important political centre of Europe over the next five years, compared with 19 per cent for Berlin and 7 per cent for Paris.

As a city, Brussels has many attractions. For individuals it has a pleasant provincial air with fine restaurants and a wide range of accommodation that in terms of rent compares very favourably with other European capitals.

There is also an abundant choice of office space, a factor which contributes to Brussels's position as one of the top four European locations, along with London, Frankfurt and Paris.

The downside for companies and individuals relocating to Brussels is the bureaucratic paperwork that bedevils the first few months of any long-term stay in Belgium.

All employees and their families - unless they enjoy

the special status of those who work for EU institutions - are required to register with the police of their local "commune".

"It's a time-consuming process that varies in efficiency according to the commune involved. For companies the paper work can be similarly tedious.

However, a number of agencies designed to make relocation a smooth affair exist to help newcomers.

Another problem for outsiders is Belgium's expensive social security regime. Any locally hired employees will be eligible for 14 months of salary - the

extra payments coming in July for the summer holidays and in December for Christmas.

On top of this, marginal tax rates are extremely high. For example, the government collects social security taxes at more than 30 per cent of employees' gross wages.

One businessman said: "If I want to ensure that a worker employed by me takes home BF60,000 (\$2,000) it costs me a total of BF170,000 (\$5,784) once social security costs and income taxes have been taken into account."

Indeed, figures from the Belgian Federation of

Enterprise show that net salaries in Belgium are 38 per cent of total cash remuneration, compared with 45.6 per cent in the Netherlands, 59.2 per cent in France and 60.4 per cent in the UK.

Rigid labour laws also make relocation complicated. Thomas McGuire, managing director of Clarus, a consulting company in Brussels, summed up the problem in an article in the Wall Street Journal. "How can I be expected to compete under schizophranic labour laws that make it difficult to fire employees when they're

bad, and almost impossible to reward them when they are good?"

But in spite of the problems of labour laws and social security charges, Brussels has other benefits to offer. These include reasonably priced office space and the ability to bargain hard for good deals.

Richard Ellis Research, a Brussels-based consultancy, believes that many office tenants are becoming increasingly aggressive in negotiations as they seek to reduce costs due to pressure on both corporate profit margins and government budgets.

"This increases the selective nature of occupier demand where only buildings which are easy to occupy, fit out at reasonable cost and offer advantageous rent and service charges levels are considered," says Richard Ellis Research.

Such tactics are worthwhile given the relative availability of office space. According to Knight Frank & Rutley, availability in Brussels dropped slightly in the first four months of the year but not in all districts.

Rents seem to be stabilising at BF7,500 per square metre, per year for prime site buildings, while average rents remain roughly BF6,500, says the estate agent. The current vacancy rate is 7.5 per cent.

Emma Tucker



Barcelona: jumped from seventh to sixth place in the popularity rankings

Düsseldorf and Geneva. All this is surprising because, although Spain's 40m population puts it in the upper bracket of European markets in terms of size, the country's appeal to multinationals is limited.

Top international executives may rate the two cities highly in terms of available office space and quality of life for staff, but there is no indication that they are poised to locate large cross-border centres in either of them.

The drawbacks for any such developments are that per capita income falls below the European Union average, that communications and access to markets are, in general, below

headquarters for businesses whose interests might embrace Portugal and southern France.

Such upbeat times might return but the business location debate centres on where to set up national HQ's to serve the home-based market.

The debate focuses on Madrid and Barcelona, with Madrid, for the most part, a service-driven market, and Barcelona largely industry-driven.

Barcelona's industrial and manufacturing base makes for a more stable property market. Madrid's leaning towards services has traditionally made it a more volatile property market, although it exercises a powerful attraction for all big

■ France: by Andrew Jack

Centre-stage for European market

The quality of life in France - its food, wine and beaches - offers significant advantages

Communicating with the senior members of the French government's international investment office at short notice is not always easy. In a sign of healthy activity and interest from foreign companies, they are often rushing around to meetings within the country or abroad.

Bernard Yvetot, deputy head of the Invest in France Mission, an arm of the French ministry of economics and finance which attempts to attract companies to set up in the country, says optimistically: "There have been a good number of announcements recently, and not a bad number to come which are in the planning stage."

According to the Organisation for Economic Co-operation and Development and the French ministry of economics,

the total amount of international investment in the country rose from \$108bn in 1992 to \$130bn in 1994. Mr Yvetot estimates that last year alone, there was FF58bn (\$11.4bn) in new direct investment.

Some 4,000 subsidiaries of international companies operating in the industrial sector in France account for 24 per cent of its industrial workforce, 30 per cent of investment and 33 per cent of manufacturing sector exports. The names are impressive: 3M, Allied Signal, Bayer, Ciba-Geigy, EuroDisney, Fiat, General Motors, IBM, Kodak and Mitsubishi.

Among the high profile investment decisions in the past few months was that of Mercedes-Benz, which decided in conjunction with the Swiss watch group, SMH, to build a FF2.6bn plant in neither of their home countries but in the Lorraine region of France, to make their Swatchmobile micro car.

Mr Yvetot says that US investment is particularly widespread in France, notably in sectors such as automobiles,

chemicals, telecommunications and semi-conductors.

He admits that the UK remains one of France's main competitors, reflecting both its flexibility and relatively low costs, as well as the English language link that can prove very important to a number of investors. Other competition comes from Asian countries, which are often able to offer subsidiaries and tax concessions no longer permitted to any notable degree between EU member states.

Even so, he says, France is proving increasingly attractive for a number of reasons, such as its position nearer the centre of the European market. He argues that the infrastructure is also a strong point, land costs are often cheap, and that there is often a concentration of highly trained labour.

In addition, he admits that the spouse of the chief executive or person taking the investment decision remains an important factor. Clearly, in a country which is the world's most popular tourist destination, the quality of life in France - its food, wine, historic towns, mountains and beaches - offers significant advantages.

But the statistics highlighting direct investment in France have many flaws. They ignore foreign-owned corporations which already have a base in France and expand their facilities using their own domestic resources, for example. On the other hand, they include takeovers of existing companies where there may not necessarily be any value-added.

Examples of this second type of activity show how attractive

French enterprises can be to foreign business. For example, take the decision in early October for GE Capital, the financial division of General Electric of the US, to pay nearly FF7.7bn for control of Sovac, a specialist financial institution currently controlled by members of the Lazard family. GE Capital apparently decided that Sovac had such potential that it was willing to offer a premium to the company's share price of about 67 per cent.

The scope for deals on the French stock market is certainly considerable, with a large number of quoted companies - notably the conglomerates - trading at a substantial discount to their net asset value.

But that is not necessarily good for French enterprises, or for foreign companies which begin business in the country and hope to seek equity expansion through the domestic market. The leading CAC-40 index of the top quoted companies on the Paris bourse has dropped consistently over many months, and under-performed most other European stock markets.

Equally, it is not always easy for foreign companies to acquire French businesses. Credit National, a provider of long-term loans to medium and large businesses, last year voted through a resolution which prevents any shareholder holding more than 20 per cent of the voting rights. It was a clear attempt to prevent a takeover - and one that is perfectly legal.

While it may be challenging for foreign executives to break in on friendly terms to the tightly-knit circles of the heads of French businesses, it is often even more difficult for them to adopt a more aggressive approach. Hostile takeovers are extremely rare, and on numerous occasions French companies have been able to turn to friendly fellow businesses to act as white knights against corporate raiders.

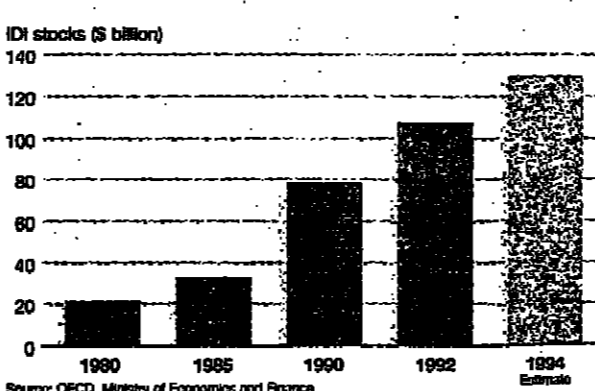
Overall, France has a relatively favourable tax regime, for companies and for expatriates. But its labour costs and employment taxes are very high. The new government has pledged reform, but so far its most significant gestures have been to raise taxes.

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France: international investment



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■ Locating beyond Europe: by Michael Cassell

A shift to broader global horizons

As costs rise at home, companies are looking beyond the EU for cheaper production centres

First, the good news. After a lull in activity caused by international recession and falling corporate profitability, the tide of inward manufacturing investment into the European Union is again rising.

The less welcome news is that, simultaneously, increasing numbers of EU-based companies are looking beyond the boundaries of their own marketplace in search of new manufacturing locations.

The search to establish external operations is being driven by the pressure to maintain global competitiveness in the face of mounting evidence that much of Europe, already experiencing a falling share of world trade, risks pricing itself out of the reckoning still further.

European industrial giants such as Mercedes-Benz, the German luxury car and truck manufacturer, recently announced a \$400m investment enabling it to manufacture small cars in Brazil. The decision is the latest in a series of cost-cutting measures by the company intended to establish production centres away from Germany, where non-wage costs are becoming an increasing burden in the struggle to remain competitive. Wage costs, too, have been rising fast this year, sharply pushing up German unemployment levels.

Daimler-Benz, the parent of Mercedes-Benz, has gone as far as to publicly contemplate a future in which the car company is no longer necessarily based in Germany.

The roll-call of companies seeking to cut production costs by seeking low-wage manufacturing centres beyond western Europe has been steadily lengthening. In September, Morgan Crucible, the UK materials group which is one of the world's largest suppliers of industrial carbons and ceramics, said it intended to move output from the Netherlands, France and Belgium to plants in China, Vietnam, Hungary and the Czech Republic.

Morgan Crucible highlighted the wide and growing disparity in labour costs facing international manufacturing companies. It pointed out that while average labour costs in Germany had reached \$36 an hour in Germany, the company was paying \$1 a day to workers at its Shanghai plant.

Among other companies bowing to competitive cost pressures are British Polythene Industries, which earlier this year had to move production from Britain to China in order to retain its share of the Japanese carrier bag market. Philips, the Dutch consumer electronics group, has already pointed to cheaper wage costs as a factor behind its expansion in Asia and CarandMetalBox, the French packaging company, has suggested it may pursue a similar strategy.

Increasing numbers of companies regard Europe as an expensive, inflexible operational base, in which the fight to remain competitive in international markets is being hampered by over-regulation and soaring social costs. According to the critics, protecting and enhancing the conditions of those in work - being harmonised upwards to match the most generous available among member states - is wrongly being given priority over the need to find jobs for the EU's 20m unemployed. Europe's dilemma is compounded



John Major and Helmut Kohl set up a group of Anglo-German business people to study competitive conditions in the European Union

because manufacturing investment has never been more mobile or had so many choices of location. Not only do growing numbers of Asia-Pacific markets, for example, offer lower labour costs but the level of technical skills is also rapidly improving; manufacturers can now compete in countries previously only capable of the most basic manufacturing activities. To add to the attractions of the developing markets, consumer spending is rising, offering manufacturers new opportunities in markets no longer sheltering behind protective barriers.

Elements of the European business community have become increasingly anxious to see a shift in EU policy which recognises the changing realities and which directly addresses the problem of over-regulation and also aims to reduce the flow of burdensome legislation. Earlier this year, an Anglo-German group of businessmen set up by John Major, the British prime minister, and Chancellor Helmut Kohl, said an urgent programme of deregulation was required "to stem the slow bleeding of Europe's economic lifeblood". The businessmen called for a reduction in labour market legislation, the appointment of a commissioner responsible for deregulation and the repeal of a number of directives which they claimed made EU companies less competitive.

Europe's politicians have been giving fresh emphasis to the question of competitiveness, launching in 1993 a white paper on growth, competitiveness and employment which was subsequently translated into a five-point plan of action for national governments. The plan highlighted the need to reduce non-wage labour costs, introduce greater flexibility in organising jobs, invest in better vocational training and target help to the young and long-term unemployed.

Most EU governments are seeking, with varying degrees of success and enthusiasm, to make their labour market strategies less rigid via a programme of phased deregulation. Initiatives range from a shorter working week and cuts in overtime to encouraging the long-term unemployed to take low-paid jobs.

Progress, however, is proving slow. While the white paper committed the EU to creating a net 15m new jobs by the year 2000, no significant fall in the total number out of work is now seen before the middle of 1997. Employment policy, say the critics, has become bureaucratic, centralised and inflexible. Combined with rising real incomes and relatively generous welfare benefits, the result is high unemployment.

In February, the European Commission announced the setting up of a 13-strong board of business, economic and trade union experts to advise the EU on how to make its industry more competitive. The competitiveness advisory group, part of the EU's effort to create jobs, made its first report to the Cannes summit in June.

Summit leaders were told that with-

out radical measures to overhaul education and training, accelerate the break-up of national monopolies and the completion of the single market, EU economies would continue to decline relative to the US and Japan.

But while the latest political rhetoric appears to demonstrate that Europe's political masters are taking the message on board, business complaints that action is too little, too slow and sometimes contradictory. The Commission's recently declared determination to press ahead with better conditions for the expanding army of part-time workers is cited as evidence that the EU remains more concerned about protecting the conditions of the employed than in creating new jobs.

Those who believe that social measures are jeopardising the ability of EU companies to compete effectively, point to the success the UK has achieved in attracting more than 40 per cent of all recent US and Japanese inward investment into Europe. The reasons, they claim, include the lowest non-wage social costs in the EU and a deregulated labour market which allows employers the maximum freedom in dictating employment conditions. Talk of signing up the social chapter is portrayed as a damaging, rather than helpful, step.

Others vehemently disagree, claim that the "burdens" of the social chapter have been wildly exaggerated and say that the EU stands for nothing if not the universal availability of decent working conditions and high levels of social provision.

Greece

Action to help investors

Greece's hopes of becoming a business centre for south-east Europe are based on an ambitious EU-funded programme for modernising infrastructure and optimism about its Balkan neighbours' progress towards a market economy.

An Ecu16m (\$20m) aid package from Brussels includes financing to upgrade main roads to motorway standard, modernise the rail system and expand facilities at ports, particularly in northern Greece.

"There is a market of more than 60m in the Balkans, before you start looking at Ukraine. Greece is a good base from which to enter these markets," says Professor Louka Katseli, the government's special adviser on inward investment.

The northern city of Thessaloniki cannot resume its 19th century role as a hub for Balkan trade until the conflict in Bosnia is settled. Nonetheless, its port is an important outlet for goods produced in eastern Europe's "southern tier" - Romania, Bulgaria, and now that relations with Greece have been restored, the former Yugoslav republic of Macedonia.

As the home of the newly-established Black Sea Development Bank, which aims at boosting trade and

investment among 16 countries in the region, Thessaloniki also looks forward to offering financial services to member states.

With easily accessible beaches, restaurants rivaling those of Istanbul and a rich archaeological heritage, Thessaloniki scores highly on quality of life, attracting an increasing number of visitors.

Meanwhile, Athens is trying to re-establish its credentials as an international business location. Advantages such as climate and its position midway between European and Middle East markets are offset by its overcrowded international airport, poor urban transport system, inadequate telecommunications and the "nefos", an atmospheric pollution cloud that hangs over the city in still weather.

By the end of the century, Athens will have a new airport capable of handling 15m passengers yearly, almost double the number of visitors that fly into the capital at present. Construction is due to start in January on a site east of Athens, to be linked with the city by a new toll highway.

The Athens underground railway is being extended with the addition of two new lines crossing the city centre.

More purpose-built office buildings are available and the airport development will see the construction of Athens' first business park. Mr Matthew Purser of Lambert Smith Hampton, the consultant surveyors, says: "There is no shortage of good-quality space at monthly rents of around Dr5,000-6,000 per square metre."

Foreign companies complain about poor service from the state telecommunications monopoly, bureaucratic delays in obtaining licences and permits, as well as problems in remitting earnings and royalty payments, despite the full liberalisation of capital movement last year.

The government is trying to remedy this by setting up a "one-stop-shop" to assist both local and overseas investors, which is expected to open its doors in January. The new Hellenic Centre for Investment and Business Co-operation, Ekedes, will help companies planning to invest over Dr1bn (\$4m) by providing a project account manager to obtain up to 40 approvals needed from different government services.

Kerin Hope

Cyprus

Tax-incentive island

Cyprus is not only a popular sun-and-sea destination for tourists from northern Europe, but a comfortable and efficient base from which to oversee operations in areas as diverse as Russia, Syria and the Gulf emirates.

The risks of setting up on a politically divided and highly militarised island now appear to be offset by improved prospects for re-uniting the Greek and Turkish communities under the umbrella of European Union membership.

Greek Cypriot officials describe the republic of Cyprus as a "tax-incentive country and not a tax haven". But a recent survey by the Cyprus Offshore Business Association says that favourable tax arrangements are the main reason why almost 20,000 companies have registered under Cyprus's offshore operations law.

Offshore companies on Cyprus benefit from tax exemptions on office equipment and company cars as well as lower operating costs than in other southern European countries. Expatriate employees enjoy

an income tax ceiling of 20 per cent and can buy cars and household goods duty-free.

Moreover, Cyprus has signed almost 30 treaties on avoiding double taxation, including agreements with ex-communist countries in eastern Europe. Kyriakos Rialas, of Capital Intelligence, the international credit rating agency, says: "These agreements make tax planning much easier and are important in encouraging companies to set up here."

While most offshore companies are brass-plate operations, about 1,000 organisations, including shipping companies, banks, credit rating agencies and multinational companies are active in Nicosia, the capital, and the port city of Limassol.

Spyros Stavrou of the Central bank, which supervises offshore activity, says: "Our banking and legal systems and our accountancy are based on British rules. This helps multinationals feel confident about setting up here."

Offices in Cyprus are unpretentious by comparison with northern Europe but

cost less than anywhere else in the eastern Mediterranean, with monthly rents at around C\$4 (\$1.5) per square metre in the centre of Nicosia or Limassol.

The Cypriots are proud of having one of the world's best-educated work forces, with a high proportion of graduates from UK and US universities. There is no shortage of Russian speakers either, thanks to a strong communist tradition in the island's trade union movement, which has helped boost the numbers of Russian banks, shipping and trading companies on the island.

In addition to its efficient telecommunications, Cyprus has the advantage of being in a time zone that spans the working day in south-east Asia, Europe and the US.

Mr Stavrou says: "You can talk to Tokyo and Hong Kong when you come in, Frankfurt during the day and New York before you go home." Companies say they have little difficulty persuading employees to move to Cyprus.

Kerin Hope

■ Ireland: by John Murray Brown

Moving nearer to Europe

Multinational companies have become vital to the health of the economy

Ireland today provides proof that it is not just the countries at the heart of the European single market that offer attractive locations for foreign investors. Indeed, Ireland's success as a business location has done more than anything to bring it closer to its more prosperous neighbours in the European Union.

The multinationals have become vital to the health of the economy, accounting for 75 per cent of manufacturing exports, 55 per cent of manufacturing output and 45 of manufacturing employment. With the lowest corporate tax rates in the EU, a generous grant system and a flexible approval procedure, as well as a "green" working environment - something many foreign executives now put near the top of their priorities - Ireland has done much to overcome its peripheral location.

The policy has been one of the country's great success stories. This month the accountants Coopers & Lybrand and Corporate Locations nominated the Industrial Development Agency, the Irish government body entrusted with approving foreign investments, as the best agency in Europe in 1995.

The IDA imposes tax at a rate of 10 per cent on corporate earnings, considerably lower than the next lowest corporate tax rate in the EU, the UK's 33 per cent.

Since the agency was estab-



The Dublin Financial Services Centre is attracting recruits almost daily

lished in the mid-1980s, it has attracted more than 1,100 companies creating about 82,000 jobs.

The IDA concentrates on four main areas - electronics, healthcare, software and financial services. Ireland is the largest home for US software investment, and is the second most important destination for US healthcare and electronics concerns. Increasingly, in recent years, the emphasis has been on services industries.

The Dublin Financial Services Centre is attracting recruits almost daily, in part a result of the deregulation of the EU insurance market. Equally exciting are hi-tech areas such as telemarketing, making use of the advances in telecommunications.

The IDA offers support in capital, employment and training costs, and rent subsidies, as well as R&D grants, with no

restrictions on profits repatriation. The sectors were chosen to fit Ireland's needs. The industries are all growth areas, are environmentally clean and relatively sophisticated while offering opportunities to nurture indigenous industrial spin-offs.

Hewlett Packard, the US computer products group, announced a £100m investment in February to make ink-jet printer cartridges, creating 1,100 new jobs.

In May, Digital Equipment announced an expansion of its Dublin operation, where it provides a desktop support service. In July, the government confirmed that United Parcel Services, the world's largest package delivery company, was creating 900 jobs at a £6m investment at Tallaght near Dublin. The tax break is set in stone until the year 2010 and until 2005 for financial services

companies. Kieran McGowan, the IDA chief executive, says the tax regime provides "certainty into the future. We are remote from the market, there has to be some compensation".

US companies usually see Ireland as a base for European operations. Intel, the US software company, for example, makes its pentium chip for the European market at Leixlip outside Dublin. Coca-Cola exports concentrate from a plant near Drogheda throughout Europe.

Mr McGowan says the cost to the government for each job it creates, now running at about £12,850, has come down every year since the mid-1980s.

Moreover, as Mr McGowan also points out, foreign companies now pay five times more in corporation tax than they receive in grants from the IDA.

There is still some concern that the tax regime subsidises

foreign companies, although the rate is available to any manufacturing operation, foreign or domestic.

The presence of the multinationals certainly flatters the economic picture, with many companies inflating their sales from Ireland to reduce their tax charge for the group as a whole. "Even at those rates, we're happy if they pay their taxes here. It means around £400m a year, from about 1,000 companies," says Mr McGowan.

More encouraging is the fact that about 150 companies are bringing strategic functions, such as marketing and research and development, to their Irish operations. American Home Products, the US group, has five separate investments in the republic, each from a separate division of the parent company.

The main competitors for the Irish market are the UK regions, particularly Northern Ireland's Industrial Development Board. The UK agency has shown it has deeper pockets when it comes to grant support. However, as the Northern Ireland peace process takes root, Mr McGowan is confident that while still competing with the IDB, there will be scope for co-operation, particularly in areas such as advertising and the sharing of industrial intelligence.

A working group has been set up to look at the issue. Trade missions are starting to be conducted jointly between Ireland and Northern Ireland. And most strikingly, a number of manufacturers of Northern Irish products, such as linen, have been persuaded to drop the UK origin tag in place of an "Irish" classification.

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8 BUSINESS LOCATIONS IN EUROPE

■ Communications: by Charles Batchelor

Incomplete connections

Congestion cost the developed industrial countries 2 per cent of their gross domestic product

Nearly three years after the formal creation of the single European market, the transport infrastructure required to help forge close trading links between the member states of the European Union is still far from complete.

Most transport networks still serve national needs with little thought paid to the international implications of good communications links. The railways, in particular, are struggling to cope with their inheritance of incompatible systems for electric power, signalling and operations.

Road transport is more flexible, but here the concern is to ensure that the electronic road charging and management systems which are being introduced do not become a barrier to cross-border travel by adopting conflicting technologies.

The European Union is beginning to devote more attention to transport issues and has a number of initiatives under way. Not before time, according to property consultants Healey & Baker. "Following a considerable period of a European-wide strategic policy vacuum, transport infrastructure has now been recognised as the key to closer economic and social integration," it said in a study, *Future Transport Developments*.

The European Commission is working on a number of transport initiatives to improve infrastructure. "We can't go on as we are and hope that by 2020 the transport conditions of Europe will be no worse than they are now," Neil Kinnoch, European commissioner for transport, told a recent Financial Times conference.

"Without substantial change, increasing delays, dirt, danger and cost are guaranteed," he added, quoting an OECD study which had concluded that congestion cost the developed industrial countries 2 per cent of their GDP.

The European Union's most ambitious transport project is the creation of a Trans-European Network (TEN) of road, rail, sea and air links over the next 15 years at a cost of Ecu300bn (\$381bn). The intention is to link the countries on the edge of Europe such as Portugal and Greece, where transport networks are not highly developed, more closely with the centre. At the same time the commission wants to reduce congestion on busy routes in the heart of Europe.

A third goal is to reduce the relative dependence on roads for the bulk of passenger and freight transport. The creation of motorway networks in many countries has led to a decline in the use of other forms of transport. Cars now account for 79 per cent of all passenger travel while road transport carries 70 per cent of all freight shipments.

The TEN consists of 14 infrastructure schemes, including high-speed rail links between France and Madrid and Paris and Strasbourg; motorways between Greece and Bulgaria and Lisbon and Valladolid; and Malpensa airport in Milan. They also include four large traffic management projects.

The EU has already agreed to finance feasibility studies, loan guarantees, interest rate subsidies and, in exceptional cases, grants over the next four years. But such has been the level of requests for support from member states that a further Ecu1bn will be required, Mr Kinnoch said.

One priority sector identified by Mr Kinnoch is air traffic control. The ending of the cold

war and with it the need for extensive military control of air space has created an unprecedented opportunity for a single system of air traffic control in Europe. There are at present fewer than 260 air traffic control centres in operation using 22 different information systems, he said. Their number increases the complexity of operations and adds to congestion in the skies.

Progress has already been made towards liberalising rail services in Europe and breaking up the large public-sector monopolies. Under directive 91/440 the national railways are required to separate the management of railway infrastructure from train operations. Financial support may still be given to non-commercial services but the aim is to create more independent, financially viable railway companies. Further liberalisation is also planned to extend access rights on railway networks to competing commercial freight operators and international passenger services.

Improved public transport is the focus of another consultation paper which is under preparation. Research into what is known as the Citizen's Network is looking at improved infrastructure and physical interchanges but also at joint time-tabling of services, "through tickets" which can be used on several different modes of transport and more efficient information systems.

Many of the hopes of reducing the number of heavy lorries on roads hinge on a switch to intermodal transport, where goods make part of their journey by lorry but the main long-distance haul is by rail. The European Commission hopes to put forward proposals to promote intermodal transport in the first half of 1996.

Shipping often emerges as the poor relation of transport planning but the commission

also has plans to boost the volume of goods which is moved by sea. In some EU countries more than 30 per cent of goods are moved by ship. But more could be done if port facilities could be improved, the paper-work involved in sea transport simplified and the somewhat out-of-date image of short-sea or coastal shipping improved. The commission is to publish a

maritime strategy document by the end of 1995.

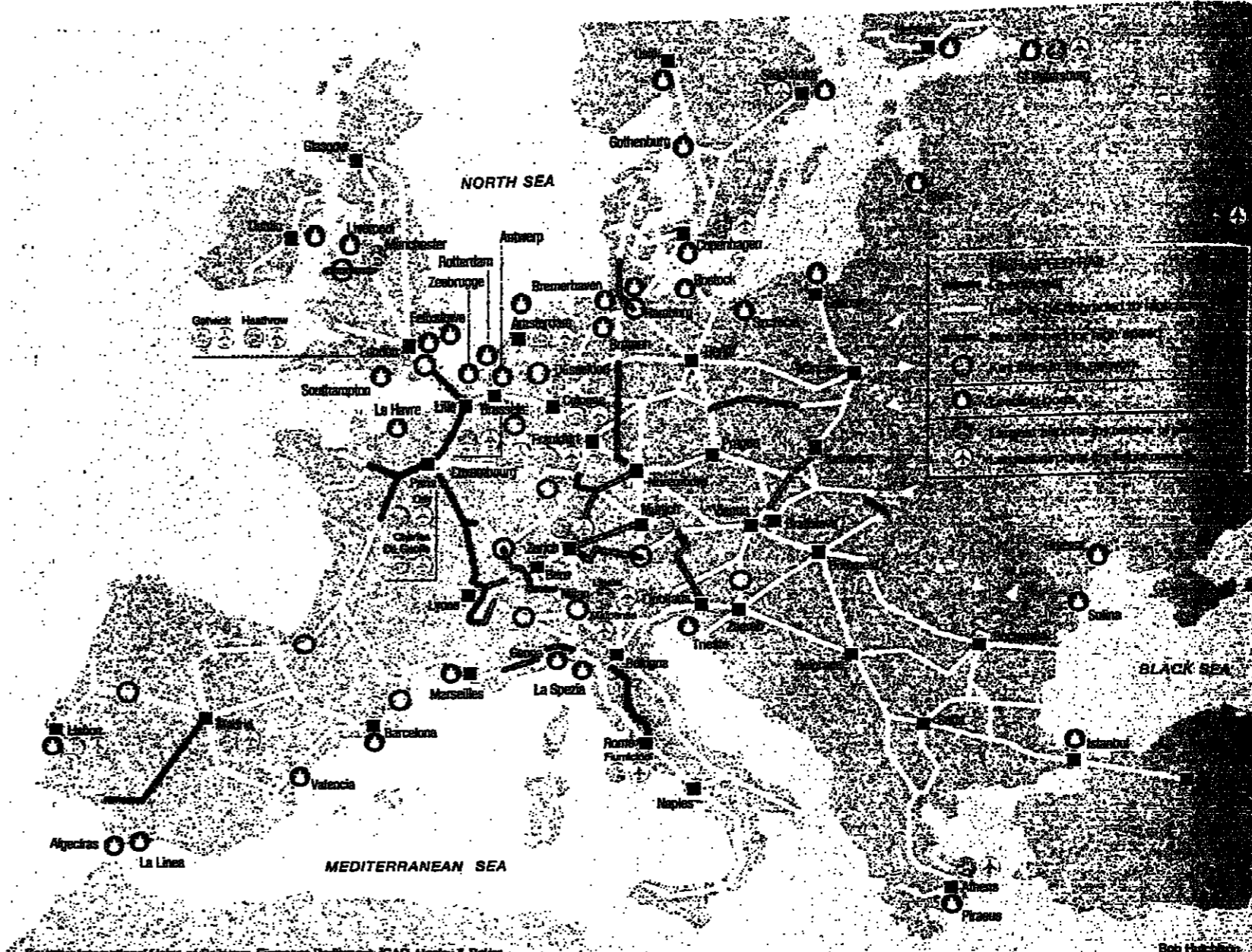
Crucial to any consideration of transport policy is the accurate costing of the different methods, particularly of road transport. This is a controversial area. Mr Kinnoch concedes, and it depends on satisfactory definitions of environmental, safety and social costs.

The British government, for one, has backed off from plans to introduce motorway tolls because of the sensitivity of the subject with voters. Road tolls which did not go straight back into financing transport projects could be simply seen as an additional tax. But making the private motorist and the commercial haulier bear the full cost, at the point of

use, of the road network, could prove a crucial element of future transport planning.

Transport links are not the only factor which chief executives take into account when deciding on the location of an office or a factory. Issues such as the quality of the workforce, labour relations and financial incentives are also important. The increasing international-

isation of business and the growth of manufacturing techniques such as "just-in-time" have, however, given added urgency to the issue of accessibility. Many of the schemes on which the European commission is working will take many years to produce results. But this only makes it more urgent that an early start is made to finding solutions.



■ Property: by Simon London

Shortage and surplus

Many cities lack good modern sites, while rents for secondary space are still falling

The building boom of the late 1980s and the subsequent slump in demand for property caused by recession has left most European cities in an awkward position.

Across the continent, there is a surplus of secondary property which few tenants want to lease. Yet good modern property in the best city centre locations is already in short supply.

The nature of the shortage varies from city to city. Knight Frank & Rutley, the chartered surveyors, notes that Madrid is suffering from a shortage of modern office units of more than 1,000 sq m. Yet Stockholm is short of self-contained units of less than 3,000 sq m.

The impact on rents has been twofold. Top rents in most cities have stabilised or are on a gently rising trend. This is certainly the case in central London, which is fur-

ther ahead in its recovery than most other European cities.

Yet rents for secondary space are still falling as properties become vacant and landlords drop their asking rents in a bid to attract tenants.

Only in cities such as Moscow and Berlin, where political events knocked the property cycle out of kilter with the rest of Europe, are top rents falling fast.

The international comparison of office property costs by Jones Lang Wootton, the chartered surveyors, shows that London and Paris are still the most expensive European cities in terms of overall occupancy costs.

Converted into US dollar terms for comparison, the firm estimates that total office occupancy costs in central London are about \$1,100 to \$1,200 per sq m per year. Central Paris comes in at about \$780.

In contrast, cities such as Milan, Stockholm and Madrid all offer prime office space at little more than \$300 per sq m. Although Moscow property costs are now falling, the city still ranks as among the most expensive in Europe. Total

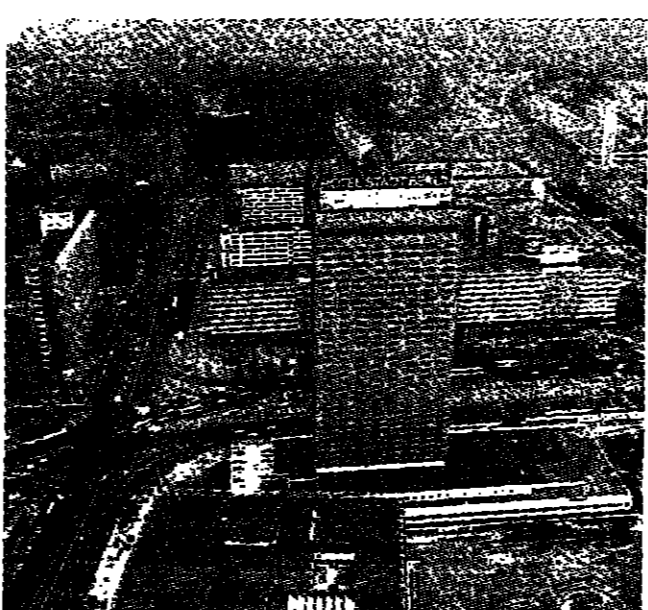
annual occupancy costs are estimated at \$900 per sq m.

Although tenants have reacted against some of the more extreme rents asked by Moscow landlords, the shortage of modern office space means that property costs are likely to remain high.

Warsaw is almost equally expensive - at about \$780 per sq m according to JLV - and is also suffering from an extreme shortage of modern business space. The hope must be that more business centre office developments will come to fruition as the Polish economy develops.

Berlin is likely to offer significantly cheaper office space in the next two years as the large number of city centre office developments come to the market. Rents have already fallen by perhaps 30 per cent from the peak of two years ago.

JLV now puts total annual occupancy costs in Berlin at about \$484 per sq m. Outside London, the fastest growth in rents over the last year has been seen in Stockholm, Copenhagen and Helsinki. These cities have started to recover from the very low



Berlin: rents have fallen by up to 30 per cent in two years

rental levels of two years ago.

These figures provide only a rough benchmark. Firstly, property costs vary considerably within each city depending on the age and location of the building. Secondly, the terms on which buildings are let vary considerably across Europe.

For example, office occupiers in central London are usually asked to sign leases of at least 15 years duration with upwards only rent reviews. Yet

in Paris leases are typically no more than three years with upwards and downwards rent reviews.

In addition to established city centres, new locations are vying for the attention of companies looking for headquarters buildings.

Property markets have always been stimulated by transport infrastructure, so the opening of the Channel Tunnel is likely to make subtle changes to the geography of Europe by providing direct rail links between London, Paris and Brussels.

Lille, in northern France, which is now within easy reach of all three capitals, has made the biggest push to capitalise on the tunnel. The city's "EuroLille" development of offices and shops, built around a new international train terminal, hopes to attract multinational corporations looking for a European headquarters.

In addition to its transport network, Lille offers property cost savings over central Paris or London. Whether companies will forsake the restaurants of Brussels for the less cosmopolitan atmosphere of Lille remains an open question.

On the English side of the tunnel, developers are concentrating their efforts on attracting companies looking for distribution facilities rather than substantial headquarters buildings.

In theory, the tunnel makes it possible for companies to have a single manufacturing and distribution facility covering most of the European continent - rather than five or six warehouses in different countries.

Figures from Eurotunnel, the Channel tunnel operator, show that lorries using the tunnel rail service can get from Ashford in Kent, just north of the Channel tunnel terminal, to Dusseldorf and back in a day.

Kent has spawned a large number of business parks over the last five years as developers have sought to capitalise on the opening of the tunnel. Again, property costs are significantly lower than central London.

■ Labour: by Richard Donkin

Hunt for cheap workers

There are signs that European countries are becoming more sceptical about social legislation

Manufacturing in Europe is having to face unprecedented competition from the newly industrialising economies which have employment costs a fraction of those in the west. While German labour might cost \$25 an hour it is less than \$5 an hour in South Korea and less than \$1 an hour in China and Thailand.

Many businesses are already moving their software and programming services to countries such as India and the Philippines where work can be commissioned and delivered electronically.

Yet, at a time of increasing global competition, the European Union persists with social policies which the US has rejected as an unaffordable luxury. Unemployment in Europe has risen to 12m, 11 per cent of the workforce, but in the US it is declining, due mainly to declining real incomes and deregulation of small businesses.

European policy makers have so far resisted copying the US system, arguing that it has produced in-work poverty and provides little social protection for the vulnerable. There are signs, however, that, individually, many European countries are beginning to share the UK's scepticism towards social legislation.

The European Commission itself recently noted trends towards deregulation and greater labour market flexibility across all member states. France and Spain, for example, are beginning to use more temporary and fixed-term contracts. In Germany's most important economic sector, the metalworking industry, working time flexibility is dominating the industrial relations agenda, partly because of the 35-hour week introduced across the industry in Germany on October 1.

Companies are being forced to balance their needs for cost cutting and greater flexibility against employee demands for job security and realistic wages. Opel and Volkswagen have recently reached agreements with their workforces to introduce flexible working systems.

Opel said it was the first German car company to adapt working time to fluctuations in production. It has developed what it calls a "working time corridor" of between 30 hours and 38.75 hours weekly, averaging out at 35 hours a week.

The deal means that employees will work a maximum of eight hours a day over four or five days a week, Monday to Friday. Monthly salaries will

be paid on the basis of a 35-hour week but each employee will have a "time bank" of hours which must be balanced annually.

Staff can take time off when they have built up their time banks and those with too low a balance will be able to work in neighbouring production areas to make up time. Such imaginative deals are becoming necessary if companies are to maintain their labour forces.

The alternative is large-scale redundancies, often leaving fewer people to work longer hours while those who have been laid off place an increasing social burden on the state.

Some European countries have introduced restrictions on the number of hours that can be worked. In the Netherlands, for example, there is a limit of 2,500 hours annually and a maximum of eight hours a day. In Spain, the maximum working week is 40 hours. No working day may exceed nine hours and there must be a minimum of 12 hours between any two working days.

While some European countries, including the Netherlands, Spain and France, have

out as one of the few European countries warning to the deregulation trend of the US, enthusiasm for social legislation and regulation among some of its EU partners seems to be waning. While there still seems no uniform consensus about tackling European unemployment there does seem to be increasing appreciation at government level of business employment needs.

Pay comparisons between European states are difficult to make because pay levels fluctuate for different kinds of jobs but in a league table of average hourly labour costs, compiled by the Economist Intelligence Unit, Portugal has by far the cheapest rates, less than half those of Spain, the next cheapest country. The UK has the third cheapest rates with the most expensive labour in Germany.

Another pointer to pay rates can be gleaned from comparisons of seven European countries, using figures supplied by Employment Conditions Abroad, a subscription-based consultancy which supplies information to trade members. Sweden came out with the low-

Country	Comparison of net pay adjusted for cost of living (£)	
	Junior manager	Senior manager
United Kingdom	16,408	38,064
France	20,124	50,228
Germany	23,826	62,788
Italy	18,050	47,428
Netherlands	16,467	38,848
Spain	19,519	47,427
Sweden	13,583	27,020

Junior manager = manager of a small team; Senior manager = includes chief executives and senior managers who have other managers reporting to them. Source: ECU Ltd.

a statutory minimum wage, there are signs of greater acceptance of lower wages in order to encourage the unemployed back into work.

The Netherlands has introduced exemptions and Spain and Italy have introduced initiatives to encourage young people and the long-term unemployed to take low-paid jobs.

Italy and the Netherlands have both introduced tax breaks and incentives for employers to assist recruitment. Some countries are also introducing measures to help people leave the labour market through early retirement. French trade unions and employers' organisations have just signed an agreement which will result in 100,000 younger people being recruited this year to replace workers over 57 years and six months who will qualify for a special benefit to tide them over until they can draw their full pension at 60.

Some countries are also looking to reduce non-wage labour costs. Companies in Belgium, for example, are being given exemptions from social security contributions for hiring young unemployed people. Where up to a few years ago the UK would have stood

est net pay levels after they had been adjusted for cost of living (see table).

When looking at comparison in gross pay the Swedish junior manager was paid only marginally less (£20,353) than his or her counterpart in the UK and Spain. The German junior manager is way ahead of the rest £36,498. Pay alone is insufficient to influence location decisions but it remains a strong factor. Whether European countries will be prepared or, indeed, able to depress pay levels sufficiently to compete across the western industrialised world is difficult to judge. European manufacturers cannot hope to compete with Asian labour rates, so the EU must expect some industries to continue chasing cheap labour around the globe.

The challenge for European governments and employers will be to develop and maintain a highly-skilled labour force to service what Professor Lester Thurow, the US economist, identified as the seven key industries of the next few decades: biotechnology, microelectronics, new materials, industries, civil aviation, telecommunications, machine tools (including robots) and computers.

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For more information on investment opportunities in Flanders, please return the form below duly filled in to the Flanders' Investment Office (FIOC Headquarters).

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